

GO EUROPEAN!
A TRANSFORMATIVE JOURNEY ACROSS
DREAMS, MODELS, EXPECTATIONS, AND REALITIES.

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The analysis builds on Prof. Porter’s diamond model, in recognition of his leading contribution on national and business competitiveness around the world. All the views are of the author and do not necessarily represent the position of the institutions he is associated. Citations of the paper should include full references.

Abstract

This paper examines market price differences of identical products sold by the same international companies operating in Albania and the EU markets by assessing four distinct perspectives. It reveals that (i) the economic models and common sense would predict that prices of identical products, sold by the same operators in an open market, based on PPP factors should be lower in Albania, or converge toward equalization through the EU integration process; (ii) the expectations of businesses and consumers in Albania, based on two surveys conducted during Spring 2024 with 150 consumers and 30 businesses, suggests that there should be minor price differences (average +5.5 percent higher in Albania for consumers and +2.7 percent for businesses); (iii) the reality, based on price information collected for 150 consumer products, randomly chosen from 13 product categories and sold in Albania by three major European companies, indicates that during Spring 2024, the average price of the products in the Albanian market was +79.7 percent higher than the average price of the same products, sold by the same operators in the EU markets. The paper analyzes the main factors enabling significant price differences between the Albanian and the EU markets, the burden and cost for the consumers, the detrimental effects for the Albanian society and the economy, and provides consumer-centered, market-based recommendations.

Keywords: Competition, price differentials, price discrimination, dominant position, monopolies, oligopolies, cartels, internal market, excessive prices, EU integration, Albania.

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Like never before, tourists are coming en-masse to explore the breathtaking views, learn about the history and culture, and enjoy the hospitality of incredibly welcoming people in Albania. The recent surge of tourism during 2023 brought a record 10 million visitors. This was more than 3 times the total population of the country.

Coffee shops in the streets of Tirana are now crowded with foreigners, enjoying the pleasure of the espresso under the constant sunny skies. For most tourists, the espresso in Tirana is great, perhaps even better than in Italy, and, (still) cheaper than in most European cities. Indeed, the typical price of an espresso, currently at 0.8 Euro in Tirana, is notably less than its average price in other European capitals.

Could the price of an espresso, imply that the cost of living in Albania, relative to the European Union countries, is also cheaper?

1. Introduction

Most economists would, probably disagree. The price of an espresso is not considered a suitable indicator to compare consumer prices between countries. Different consumer habits, tastes and preferences, level of competition, coffee varieties, origin, processing and standards, for example, are all factors contributing to notable differences in the final price of an espresso across the world. But, what's more important in many countries including Albania, coffee is subject to different specific taxes resulting in important final price differences. For this reason, despite its practical significance and visibility, differences in the price of an espresso would not provide a sound basis for comparing consumer prices between countries.

Economists are fascinated by this subject and have found other ways to observe, measure and analyze these differences. The most famous and simple method is the "BigMac" index¹, invented and regularly published by The Economist². A "Big Mac" is a hamburger sold by McDonald's in every fast-food business operated by the company and the index compares the worldwide relative price of this product. The "BigMac" index is a simplified and informal measurement based on the theory of purchasing-power parity. This is the notion that in the long run, exchange rates should move towards the rate that would equalize the prices of an identical basket of goods and services (in this case, a hamburger, which comprises local raw materials and labor for preparation) in any two countries. The simplicity of the "BigMac" index makes it favorable for tourists to use the price of a "BigMac" as an indication of how expensive or cheap a country is to travel, eat, stay and live in, making it an interesting tool when choosing a travel destination.

Unfortunately - or fortunately (depending on one's perspective) - McDonald's does not (yet) operate in Albania and the country is not included in the "BigMac" index list. Tourists (and researchers) have to find other ways to compare price levels between Albania and other countries.

The purpose of this study is to examine price differences of identical products concurrently traded by the same international firms in the Albanian and EU markets. And, if differences exist, to assess the enabling factors and propose ways to reduce and eliminate them. Price differences are assessed through four distinct perspectives: (i) by considering Albania as an EU candidate country (*dreams*), (ii) by exploring what the economic models suggest (*models*), (iii) by assessing the voices of local consumers and businesses (*expectations*), and (iv) by collecting and analyzing real market information based on price differences charged by the same operators in the Albanian and the EU markets (*realities*).

Disclaimer

Successful business firms constitute the foundations of a healthy and competitive market economy. The firms analyzed in this study are international companies with a strong reputation, brand name and operations in many countries. They are profitable and experienced businesses in Albania, pay taxes, bring expertise and engage in social responsibility activities. They employ hundreds of persons trained and working "around the clock" to offer quality products to thousands of consumers.

The study is not about the market behavior of individual firms, nor about assessing good or bad management choices. The problems identified in the findings of this research are important and pertinent to the business environment that enables market failures to emerge and sustain in the market. Therefore, the public interest is the central topic in this analysis, rather than assessment of specific businesses practices.

¹ "BigMac" Index: <https://www.economist.com/big-mac-index>

² The Economist: <https://www.economist.com>

All the information used in this study is public. Any person with access to the internet can follow the methodology to independently verify the accuracy of the findings.

Definitions: Excessive discrimination

Throughout the study, reference is often made to the difference (in percent) between the price of a product sold by international EU companies in the Albanian market, converted to Euro using the current exchange rate, and the price of the same identical product sold in the EU home market by the same companies (in Euro, or converted to Euro using current exchange rates).

Discussions with the businesses and consumers surveyed for this study³, suggested that when such a difference is *more than double* of their expectations, it could be considered as excessive. For this reason, in this study, whenever the price difference results are *twice* as high than the *average* of either the expectations by the business executives, or consumers (*whichever is highest*), it is referred to as an *excessive discrimination*.

The excessive discrimination reveals the degree of price discrimination: how much more expensive, in percent, the price of a product sold in Albania is, on top of the price of the identical product concurrently sold in the EU market by the same market operator. For example, an excessive discrimination of 10 percent indicates that the same product is sold in Albania at a price 10 percent higher than in the EU. Furthermore, an excessive discrimination of 100 percent reveals that the same product is sold in Albania at *double* its current price in the EU markets.

2. Methodology

The methodology of the paper builds on a review of the contemporary theory on the topic of abuse by the firms with market power through price discrimination practices. The research continues by examining price differences between identical products sold in Albania and the EU markets examined by assessing the four perspectives considered in this study: dreams, models, expectations and realities. The findings of the research are analyzed through a national business competitiveness framework by using the Diamond Model and the results are matched with the theory considerations. The paper concludes by providing consumer-centered, market-based recommendations for all the stakeholders identified in the research.

Dreams

How the price differences between identical products sold in Albania and the EU markets would be, considering Albania's goals in the near future? This part of the research included a desk review of recent surveys and discussions with various persons and companies contacted for the preparation of this research in order to assess, from a free market perspective, the aspirations of the Albanian society on this specific topic.

Models

What prevailing prices would economic models predict for products sold in Albania based on the prices of identical products sold in the EU market? From a list of available research on this topic, two references building on comparative price levels of consumer goods and services across different countries were considered. The first, reflects the view of the World Bank which considers the price differences across the world as an important factor when dealing with economic data and the World Development Indicators. The second, is a recent analysis of the EU statistics agency - Eurostat, focusing on 2022 price level indices as a comparison of countries' price levels relative to the EU average. It

³ Described in the methodology section below.

comprises information on candidate countries, including Albania. Purchasing power parity (PPP) implications are also considered in this section.

Expectations

What prices would Albanians expect for the products they purchase on a daily basis, relative to the prices of exactly the same products sold in the EU? Perceptions on market prices for specific products involve a degree of subjective judgment which depends on a number of factors such as the features of the products, income level, experience with the product, market competition, standards and regulations, seasonality, existence of substitute and complementary products and future expectations, for example. To identify the expectations from market participants, one similar question was posed to two groups – consumers, and trading firms importing EU products in the Albanian market. Two surveys were organized for the research to identify local market expectations in demand and supply.

The view of the businesses

The first survey was conducted with 30 business executives from local and international firms, of different sizes, operating in Albania in the trading sector. All firms had relatively long track records of trading experience with the EU market. Representatives of the firms were asked to respond on the price differences between products they were selling in the local market compared to the price of the same products sold in the EU market, through the following single-question survey:

What is the average price of a typical consumer product (like personal/processed food/furniture/cosmetics/appliance/electronics/clothes etc.) you import from the EU and sell in the Albanian market, relative to the average price of exactly the same product currently sold by your company/partners in the EU markets?

- a. -50% or less, than in the EU markets
- b. -30% than in the EU markets
- c. -20% than in the EU markets
- d. -10% than in the EU markets
- e. Same as in the EU markets
- f. +10% than in the EU markets
- g. +20% than in the EU markets
- h. +30% than in the EU markets
- i. +50% or more than in the EU markets

Please elaborate if you wish to comment: _____ . Thank you!

Table 1: Questionnaire used for the survey with business executives

The survey was complemented by a follow-up focus group discussion through which the business executives expressed their point of view on this topic based on the experience with trade in goods from the EU market.

The view of the consumers

The second survey was conducted with 150 consumers in the Tirana area, who were asked to respond the following question:

What do you think is the average price of a typical consumer product (like personal/processed food/furniture/cosmetics/appliance/electronics/clothes etc.) you regularly purchase in the Albanian market, relative to the average price of exactly the same product currently sold in the EU markets?

- a. -50% or less, than in the EU markets
- b. -30% than in the EU markets

- c. -20% than in the EU markets
- d. -10% than in the EU markets
- e. Same as in the EU markets
- f. +10% than in the EU markets
- g. +20% than in the EU markets
- h. +30% than in the EU markets
- i. +50% or more than in the EU markets

Please elaborate if you wish to comment: _____ . Thank you!

Table 2: Questionnaire used for the survey with the consumers

Realities

What is the difference between the price of products sold by international companies in Albania from the price of the same products sold by these companies in European markets? To seek answers to this question, price information on specific products was retrieved during March-April 2024 by using the following procedure.

Collection of price information.

Getting prices for identical products traded in Albania and EU countries is possible through shop visits, but for a considerable number of products, this approach would require much time and cumbersome efforts, which go well beyond the scope of this study. The main factor that facilitated and accelerated the research process in this study was a simple one: digital solutions. Nowadays more and more international companies sell their products not only through their own supermarkets and shops, but also through *online stores*, which also *reveal the prices* for products offered by the companies. International companies, often provide their online portals to their subsidiaries in other countries so that they can operate the online stores in local languages and with local prices. It is much easier to obtain the prices for the same products sold in any country where the companies operate, by using a simple search in the local online stores a company operates in different countries (if *brandname.com* is a global company, very likely its subsidiary's website in France would be *brandname.fr*, in Albania *brandname.al* and so on).

The price information for the products considered in this study was collected from: (i) the local online stores of the companies selected, (ii) the online stores of the same companies operating in their home EU country, and (iii) the online stores of the same companies operating in various EU and non-EU countries for the cross-country comparative analysis.

Any person with access to internet, may check online the local or international prices of the products for any company, in any country where the company operates through online stores. Prices are public information and often accessible online.

Criteria used for the selection of the products and companies:

Specific criteria were applied to determine the list of the products and companies considered in this study:

- **Subsidiary⁴ operations in Albania:** companies considered for the study had to operate in the Albanian market as a foreign company subsidiary, with substantial market share and at least a few years of experience in the market.
- **Operations in home country:** to enable cross-country price comparisons, companies considered for the study had to operate in their home market (country of origin), with a strong preference for EU countries, preferably also in other countries.
- **Availability of online stores:** companies considered for the study had to operate their local online stores, both in their home country *and* Albania.
- **Consumer goods only:** products purchased for daily consumption by the typical average Albanian consumer were considered for the panel. Luxury, fancy or capital goods, were excluded from consideration.
- **No products with special taxes:** products on which countries impose different special taxes were excluded from the panel as the different levels of taxes influence the final prices. Examples include cigarettes, alcoholic drinks and coffee.
- **Focus on imported goods only:** there are several market operators offering both imported and domestically produced goods in the sales portfolio of their stores in Albania. To focus on the topic of the study, only companies primarily selling imported goods were considered.
- **Representative sample of products:** products randomly considered for the panel of the study were selected by a substantial range of products traded by each company in Albania. Each product chosen was representative for the products and product categories traded by each company.
- **Promotional discounts excluded:** products with local discounts, seasonal sales and loyalty program discounts, for example, were excluded from consideration in the study. Although sales promotions on specific products are common and important marketing factor for companies, local companies use discounts typically on limited scale and for a range of products which differs from country to country. As the net effect from discounts in price comparisons builds from different products in different countries, excluding these products provides a more realistic comparison of prices.
- **Seasonal products excluded:** to avoid the influence of seasonal fluctuations in prices and locational advantages or disadvantages, seasonal products (like fresh fruits, vegetables etc.) were excluded from consideration.
- **Verification of physical/online prices consistency:** prices for about 30 percent of the products in the panel were verified in-site. This was to ensure that the prices of the products displayed in the physical stores corresponded to the prices offered for the same products through the local online stores.

The final steps of the methodology involved validation of the information collected and cross-country price comparisons. For validation purposes, about 20 percent of the products in the panel were substituted with other products complying with the above criteria. The validation produced consistent results with less than 3 percent fluctuations in price differences. Cross-country price comparison analysis, was used to collect price difference information on specific products, sold by the same company in various countries where the companies operates (including Albania).

Statistical significance of the selected samples

The number of the products chosen in the panel, size and distribution of the businesses and consumers samples surveyed for this study were determined through a number of approaches. This included previous experiences with other similar surveys such as the Executive Business Survey,

⁴ Subsidiary, branch, joint-ventures, partnerships, licensing etc. – whichever mode of local market entry that allows the operator to trade products on behalf of the global company and is acknowledged as its activity in Albania in its official website.

organized by the World Economic Forum for the preparation of the Global Competitiveness Report; Doing Business Report, prepared by the World Bank, Consumer Price Index, prepared by INSTAT, for example.

For the sample of the surveyed consumers, it was estimated that the customer base of the selected companies would be around 300,000 consumers. With a confidence level of 90 percent and confidence interval 5 percent, the calculated sample size of the consumers was 138.

For the sample of the surveyed businesses, data from the Business Registers 2023, published by INSTAT⁵, indicated that during 2023 there were 8,614 companies engaged in trading activities in Albania. With a confidence level of 90 percent and confidence interval 11 percent, the calculated sample size of the businesses was 28 companies.

For the sample of the products, it was estimated that the companies selected for the study would jointly trade less than 10,000 different products in the Albanian market. With a confidence level of 90 percent and confidence interval 5 percent, the calculated sample size of the products was 136 products. The sample was distributed into 13 different product categories, each containing 10 products and food category containing 30 products. This was done to cover a large number of products sold by the companies in the local market and to emphasize the weight of the food products in the portfolio. For many product categories, the sample of 10 products chosen was significant as it represented 16 percent of all the products in the skincare category, 22 percent of all products in the detergents category and 18 percent of all products in the bio food category, for example.

3. Literature review

Among many notable publications, "Competition Policy: Theory and Practice", by Motta, Massimo (2004)⁶, provides a comprehensive framework for understanding the ways international companies may abuse their market power. Motta defines market power as the "*ability of a firm to raise prices above some competitive level – the benchmark price – in a profitable way*"⁷ and explains that firms with market power may raise the prices without losing significant market share. To achieve market power, firms operate through economies of scale, brand recognition, and extensive distribution networks. Motta emphasizes that market power is measured as "*the difference between the prices charged by a firm and its marginal cost of production*", which is essentially similar to the difference between the prices charged in the market by the firm and monopoly prices.

Market power enables the firms to set prices that are significantly higher than the marginal costs, exploiting consumers who, especially in developing countries, have limited market alternatives. The mechanism of abuse with market power, according to Motta, develops through price discrimination and other exploitative practices. Price discrimination, which is a core subject of this paper, according to Motta develops through two main criteria: (i) *firms have a way to sort consumers to charge them different prices* (i.e. different nations); and (ii) *arbitrage should be absent* (consumers cannot resell products to each other).

Motta explains three ways price discrimination occurs: first, second and third – degree discrimination. *First-degree discrimination* is when firms know the precise willingness-to-pay of the consumers and they charge them the maximum price to capture all the consumer surplus. *Second-degree discrimination* is when firms offer different deals to everyone and they let the consumers 'self-select'.

⁵ INSTAT: Business Registers, 2023. <https://www.instat.gov.al/en/themes/industry-trade-and-services/business-registers/>

⁶ Competition Policy: Theory and Practice, by Motta, Massimo (2004). Cambridge University Press.

⁷ Competition Policy: Theory and Practice, by Motta, Massimo (2004). Cambridge University Press. Chapter 2.1: Market power: A definition.

Third-degree discrimination is when firms charge different prices to consumers with different characteristics, including for example market location, which is particularly relevant in this study⁸. Price discrimination enables firms to set higher prices in regions with fewer competitors and lower the prices in regions with more competition.

To assess the implications of the national business environment and company strategies on developing countries such as Albania, Prof. Porter's 'On Competition' was extensively used for the preparation of this study⁹ by focusing on the relevance of the five forces and the diamond model in the Albanian context. In his book Porter emphasizes the importance of competitive strategy and regulatory frameworks to ensure that markets remain competitive and that dominant firms do not abuse their positions to the detriment of the economy.

Part of the literature review process was also a note by the World Bank on price differences across the world¹⁰ and an article from Eurostat¹¹ on the price levels for consumer goods and services in the European Union, focusing on price level indices, which provide a comparison of countries' price levels relative to the EU average and calculated using purchasing power parities. Other research papers referred in the study included Purchasing Power Parity considerations based on the views of Sarno, Lucio and Taylor, Mark P on this topic¹².

To determine whether a price may be considered as excessive is often a major challenge. A literature review of the position of the Court of Justice of the European Union (CJEU) on this specific topic was closely linked to the research in this study. From the legal perspective the CJEU has developed a test (named the United Brands test) to determine whether a price is excessive in the market. The test consists of two limbs: (i) whether the difference between the costs actually incurred and the price charged is excessive (Limb 1); and if so, whether a price has been imposed that is either unfair in itself or when compared to competing products (Limb 2)¹³. However, a violation can be shown by using a comparative benchmark as the court has emphasized that *other methods may be valid*¹⁴ to establish an excessive pricing abuse, such as *comparator tests*.

4. Facts and findings

Based on the methodology of the study, through each of the four perspectives described above, the findings collected solely from public sources during the research process are outlined in this section. For *dreams* and *models*, the findings build on analysis of literature reviews. For the *expectations*, findings are collected from two surveys organized with 30 businesses and 150 consumers in Albania. For the *realities*, the data consists of price information for identical consumer products traded by three

⁸ Competition Policy: Theory and Practice, by Motta, Massimo (2004). Cambridge University Press. Chapter 7.4 Price discrimination.

⁹ Porter, Michael: On Competition, 2008. Harvard Business Review Book. Chapter 6: The Competitive Advantage of Nations and Chapter 1: The Five Competitive Forces That Shape Strategy

¹⁰ Adjusting for price differences across the world <https://datatopics.worldbank.org/world-development-indicators/stories/adjusting-for-price-differences-across-the-world.html>

¹¹ Eurostat: Comparative price levels of consumer goods and services https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Comparative_price_levels_of_consumer_goods_and_services#Price_convergence

¹² Sarno, Lucio and Taylor, Mark P.: Purchasing Power Parity and the Real Exchange Rate. IMF Staff Papers, Vol. 49, No. 1.

¹³ Case 27/76, United Brands Co. v. Commission, 1978 E.C.R. 209, 301, paragraph 252.

¹⁴ Idem, par. 253.

international operators in the Albanian, EU and regional markets. These were collected from a sample of 150 products from 13 product categories purchased on a daily basis by Albanian consumers.

Dreams.

“E duam Shqipërinë si gjithë Europa” – “We want Albania to be like the rest of Europe” was the main theme of the protests that ousted the communist regime in the early 90’s. Albania as a *part of the European Common Market* is still the main aspiration of all Albanians including citizens, businesses firms and organizations, government and opposition, civil society organizations and academia. It is an aspiration supported with no exception by the entire political spectrum.

In the common market structure, there are no barriers to entering the market, composed of many buyers and sellers, all perfectly informed on the available goods. All buyers and sellers are price takers, they exercise no control over the market price of the product. Under such theoretical assumptions and by neglecting – for a moment - transportation, transaction and exchange rates costs, the Law of One Price, one of the most fundamental concepts in economics, states that: *Identical products will have the same price across the common market, regardless of location.*

One outcome of the EU integration process is that it leads to price convergence across the EU common market¹⁵. From this perspective, eventually, identical goods and services, sold by the same operators in the Albanian and EU markets should be offered at the *same price*.

Models.

The World Bank, in a 2018 note¹⁶ on the World Development Indicators suggests that “...prices of goods and services differ across countries...” and “...typically, prices are lower in poorer countries and higher in richer ones...”. This is known as the Penn effect¹⁷ based on the Balassa–Samuelson¹⁸ model on the tendency for consumer prices to be systematically higher in more developed countries compared to less developed ones. From this viewpoint, with Albania’s real GDP per capita at just 14.4 percent of the EU-27¹⁹ in 2020, *prices of the same products sold in Albania should be considerably lower than those in the EU market.*

The Penn effect is also illustrated by an article²⁰ from Eurostat. In 2022 it compared prices of consumer goods and services based on price surveys covering more than 2,000 consumer goods and services across 36 European countries including Albania. The results showed price levels for consumer goods and services differed widely across Europe and the price level in Albania was 38.6 percent below the EU average, based on total household final consumption expenditure (HFCE) on goods and services. While differences in price levels are important for the comparison of economic data such as GDP, they are also useful in the analysis of the development of the EU's single market for goods and

¹⁵ Price convergence in the enlarged internal market

https://ec.europa.eu/economy_finance/publications/pages/publication10179_en.pdf

¹⁶ Adjusting for price differences across the world <https://datatopics.worldbank.org/world-development-indicators/stories/adjusting-for-price-differences-across-the-world.html>

¹⁷ The price of development: The Penn–Balassa–Samuelson effect revisited:

<https://www.sciencedirect.com/science/article/abs/pii/S0022199616300873>

¹⁸ Idem

¹⁹ Eurostat: Real GDP per capita

https://ec.europa.eu/eurostat/databrowser/view/sdg_08_10/default/table?lang=en

²⁰ Eurostat: Comparative price levels of consumer goods and services

[https://ec.europa.eu/eurostat/statistics-](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Comparative_price_levels_of_consumer_goods_and_services#Price_convergence)

[explained/index.php?title=Comparative_price_levels_of_consumer_goods_and_services#Price_convergence](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Comparative_price_levels_of_consumer_goods_and_services#Price_convergence)

services, including price convergence across the market. Although these results cannot be attributed to specific products, they suggest that the average *consumer prices in Albania are lower than the EU average*.

The PPP exchange rate between any two nations equalizes the national price levels expressed in a common currency converted at that rate, so that the purchasing power of one unit of the currency would be the same in both economies²¹. Empirical evidence suggests that PPP exchange rate deviates from real exchange rates, primarily because of the effect of non-tradable goods. The PPP as a monetary conversion rate is calculated based on the prices of around 1,000 common products in each nation and then by finding the number by which one country's money would need to be multiplied to purchase the same goods and services in another country (often the US economy). While the PPP is useful for country-to-country comparisons of aggregate economic indicators, PPP by itself offers little insight into a country's economic health and is rarely considered on its own or applied to specific products or groups of products. Due to this reason and to avoid unnecessary over-sophistication of this research, PPP implications are not considered in this study. However, due to Albania's purchasing power, if it were taken in the account, its effect would further magnify the findings.

Expectations

Results of the business executives survey.

For this study 30 business executives from local and international trading companies of different sizes operating in Albania were surveyed between March-April 2024. These executives have a long track record of trading experience with the EU markets. The survey revealed that the business executives, *based on their own practices*, expected the average price of the consumer products sold in the local market to be *2.7 percent higher* than the average price of the same product sold in the EU markets. A key finding was that the majority of the survey respondents (60 percent) suggested that prices in the local market for identical goods, should be at the same level with the EU market.

Business executives' responses		
<i>What is the average price of a typical consumer product (like personal/processed food/furniture/cosmetics/appliance/electronics/clothes etc.) you import from the EU and sell in the Albanian market, relative to the average price of exactly the same product currently sold by your company/partners in the EU markets?</i>	Responses	Percent
a. -50% or less, than in the EU markets	0	0%
b. -30% than in the EU markets	0	0%
c. -20% than in the EU markets	0	0%
d. -10% than in the EU markets	4	13%
e. Same as in the EU markets	18	60%
f. +10% than in the EU markets	5	17%
g. +20% than in the EU markets	2	7%
h. +30% than in the EU markets	1	3%
i. +50% or more than in the EU markets	0	0%
Weighted average (Note: a. and i. are double weighted)	+2.7%	100%

Table 3: Results of the survey with business executives

Summary of the main findings from focus group discussions with business representatives:

²¹ IMF Staff Papers: Purchasing Power Parity and the Real Exchange Rate
<https://www.imf.org/external/pubs/ft/staffp/2002/01/pdf/sarno.pdf>

Many of the business executives that participated in the survey pointed out that their overall profitability and cost structure, including distribution and retail premiums, are not much different from that of the peer companies operating in the EU countries. Therefore, they would expect the final prices sold to consumers in the local market to be at the same level as in the EU markets.

Some of the businesses participating in the survey demonstrated in real time that products they were trading in the Albanian market were, indeed, selling at prices very close to the price range of the same products traded in European countries. Analogously, tests conducted by online searches during the discussions confirmed that for many products the price was identical.

The businesses representatives suggested that the price of the products prevailing in the EU markets included generous profit margins sufficient enough to recover costs and make profits in any market, including Albania. Other executives noted that it is the policy of their parent company to operate through a globally unified pricing approach for the products sold across the borders. As such this choice dictates unified prices in all the countries. These prices normally comprise sufficient profit margins to comfortably operate in any market in the world, including Albania.

Business executives from trading companies also suggested that due to the smaller market size and unsophisticated competition in Albania, the distribution channels are often much shorter and less complex than those in the EU markets. As they involve fewer marketing intermediaries and therefore smaller distribution costs, this leads to higher profit margins of operations and/or expected lower consumer prices compared to the EU countries.

Furthermore, executives from successful businesses that had full freedom to determine the final price for the products sold in Albania, indicated that even on moral grounds it would be considered ethically unfair to sell products in their home country at higher prices compared to the EU markets. Other executives reported that due to the smaller market size and less sophisticated demand, product lines in the Albanian market typically comprise a significantly smaller number of products (or product varieties) than in EU markets. However, the focus on a smaller number of products allows these companies to enjoy higher margins on these products, resulting in lower market prices relative to the EU.

The few firms showing a preference for higher prices in the local market, compared to the EU market, indicated the small market size as the main factor businesses should use higher prices. Transportation costs, corruption and red tape bureaucracy, as well as the lack of skilled workforce were also mentioned as factors leading to upward price pressure in the business context in Albania.

Results of the consumers survey

For this study, a survey of 150 consumers located mostly in Tirana area was organized during March-April 2024. The survey revealed that *based on their own market perceptions*, consumers expect the current average price of a product they purchase in their local market to be *5.5 percent more expensive* than the price of the identical product sold in the EU markets. Approximately 58 percent of the consumers surveyed expected local prices to be higher than the EU market, 34 percent expect the prices to be lower than in the EU market and 8 percent of the consumers expected local prices to be in the same level as in the EU market.

Consumer responses, based on individual perceptions		
<i>What do you think is the average price of a typical consumer product (like personal/processed food/furniture/cosmetics/appliance/electronics/clothes etc.) you regularly purchase in the Albanian market, relative to the average price of exactly the same product currently sold in the EU markets?</i>	Responses	Percent
a. -50% or less, than in the EU markets	0	0
b. -30% than in the EU markets	12	8%

c.	-20% than in the EU markets	24	16%
d.	-10% than in the EU markets	15	10%
e.	Same as in the EU markets	12	8%
f.	+10% than in the EU markets	11	7%
g.	+20% than in the EU markets	64	43%
h.	+30% than in the EU markets	11	7%
i.	+50% or more than in the EU markets	1	1%
Weighted average (Note: a. and i. are double weighted)		+5.5%	100%

Table 4: Results of the survey with the consumers

The surveyed consumers provided mixed feedback and comments. Many respondents argued that the price of the products should be somehow higher than in the EU due to the geographical distance, lack of competition in the domestic market and the relative size of the market as the main factors for price differences. Respondents who opted for expectations of lower prices compared to the EU, suggested that the lower purchasing power in Albania dictates companies to offer lower prices than those in the EU markets. Many respondents pointed out that while they safely assume the price in Albania for identical products to be equal with the EU markets, their main concern as consumers was not the possible and minor price differences but the threat from counterfeit products of lower quality that are often sold in Albania at the same price as the original products in the EU markets.

Realities.

Based on the criteria defined in the methodology, the radar screen of the study's identified three major European companies fulfilling the criteria that made the research possible: operating in the Albania and international markets, offering the same products in these markets, operating online stores where the price information for each product was available.

During 2022, the identified firms had a collective turnover of around 90 million Euro in the Albanian market. They originate from three different European countries and since many years operate in several countries around the world, including Albania. According to this study's methodology, price information for a panel of 150 different products (about 50 products from each company) was collected:

- i. from the online stores of each company in Albania
- ii. from the online stores of each company in their home EU country²² (country where the company originates from).

The products were randomly chosen from 13 categories (10 products for each category, food category comprising 30 products), sold in the Albanian market by these companies and filtered to comply with the criteria defined in the methodology.

In sharp contrast with the predictions of theoretical models and expectations from business executives and consumers surveyed during this study, the price information collected revealed that the average price of these products sold in the Albanian market by the three companies was +79.7 percent higher than the average price of exactly the same products, sold at the same time, and by the same companies, in their home EU markets.

None of the products in the panel were offered in Albania at a lower price than the price of the same product offered in the EU market. The Albanian prices of the products surveyed resulted between +24 percent (lowest) and +212 percent (more than triple the price) higher than the respective price of each product sold by the same companies in the EU markets. All the products of the panel, qualified for the *excessive discrimination* definition, described above.

²² The EU country the company originates from

Excessive discrimination were consistently detected throughout the entire range of the 150 panel products. They resulted as highest in the product categories of baby food and food products (+147 and +107²³ percent, respectively, or more than double the price) and lowest in the product categories of living room furniture, cosmetics products, and garden products (+56, +57 and +57 percent, respectively).

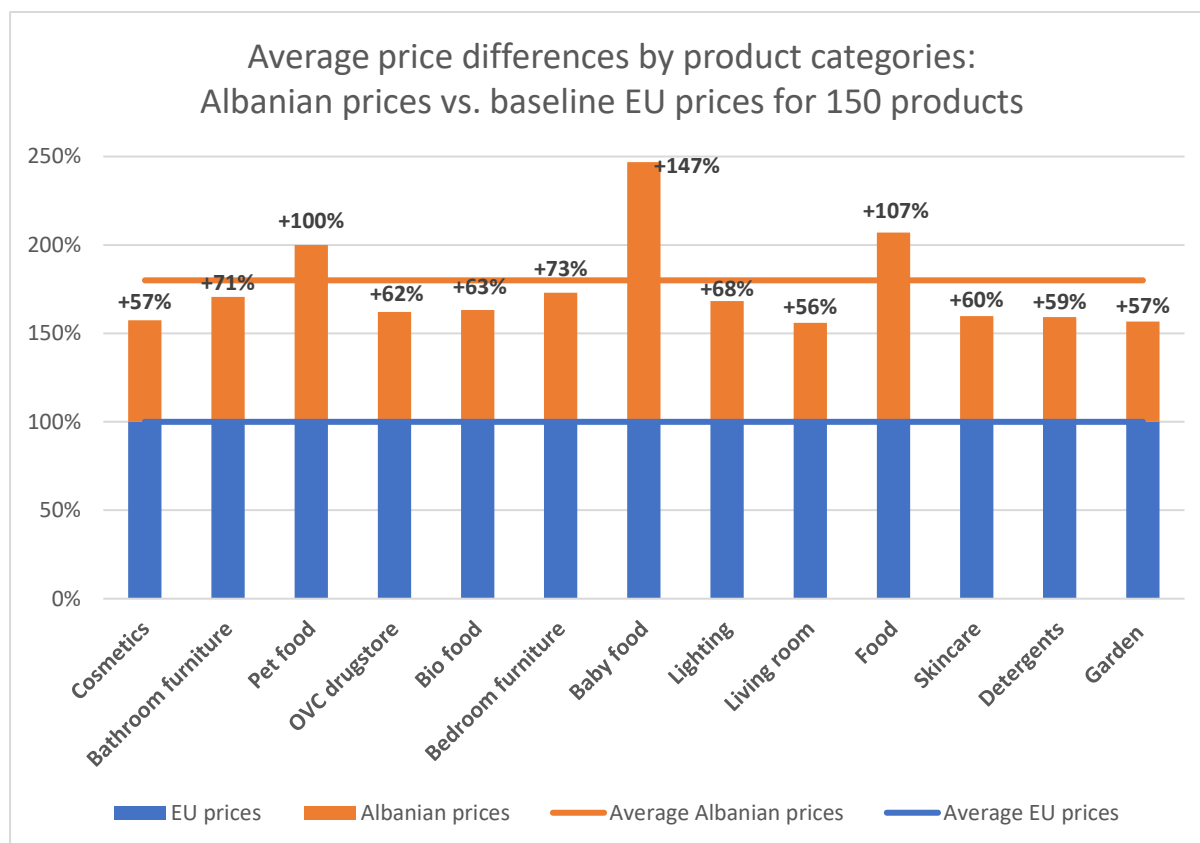


Figure 1: Price differences between Albanian and EU market, for 150 identical products of 13 product categories, each containing 10 products and food category containing 30 products.

A comparative assessment of market prices charged in Albania by the selected companies in this study, with the prices of same or *similar* products traded by other operators in the market shows no significant variations in the prices prevailing in the local market. This leads to the deduction that excessive discriminations in the local market are more *pervasive*, and not limited to the selected operators in the study.

Cross-country comparative analysis

Using this study's methodology for collecting price information of various products, a cross country benchmark analysis was conducted. This analysis focused on 10 products of different price range from 1 to 1,000 Euro, sold by the same company in various countries of Europe. It reveals that the practice of excessive discrimination, relative to the baseline price of the product sold in the home market of the company (EU country), for every product in the list, is distinctively highest in Albania compared to other countries. While price differences are noticed from country to country, as summarized in the Table 5, the average variation in every country is less than ± 15 percent. The notable exception is for Albania where the average excessive discrimination for the selected products is +71 percent (from the baseline, price of each product in the home country of the company).

²³ Calculated as the average of three food categories, each containing 10 products

Price differences charged by the same company, for exactly the same products, sold in selected countries, from the baseline price of the products sold in the home market (EU country) the company originates from.								
Product price range	Product	Home (EU) country	Albania	Serbia	Kosovo	Ukraine	Holland	Greece
1-10 Euro	Product 1	Baseline	+85%	+3%	+40%	-19%	-7%	-7%
	Product 2	Baseline	+85%	+11%	+40%	+12%	+12%	-7%
10-50 Euro	Product 3	Baseline	+66%	+11%	+23%	-19%	+1%	-25%
	Product 4	Baseline	+56%	+13%	+16%	+35%	+8%	0%
50-100 Euro	Product 5	Baseline	+35%	+6%	0%	+4%	0%	-7%
	Product 6	Baseline	+48%	+6%	+12%	-10%	0%	-13%
100-200 Euro	Product 7	Baseline	+66%	+22%	+24%	-10%	+6%	-7%
	Product 8	Baseline	+85%	-5%	-7%	-38%	-30%	-30%
200-1000 Euro	Product 9	Baseline	+105%	+20%	+4%	0%	+7%	-17%
	Product 10	Baseline	+78%	+25%	-10%	-7%	-4%	-31%
1-1000 Euro	Average	Baseline	+71%	+11%	+14%	-5%	-1%	-14%

Table 5: Cross country price differences for the same products traded by the same firm in various countries vs. the baseline price in the home country of the firm

Summary of the findings

The research reveals that based on the information collected using this study's methodology, for a typical product priced 100 Euro in the EU markets, the Albanian society's dreams would expect it to be offered exactly at 100 Euro in the Albanian market. Economic models would suggest its price in the local market to be anywhere between 14 Euro and 100 Euro. Business firms operating in Albania and trading with EU markets would suggest its local price to be 102.7 Euro, while Albanian consumers would expect its local price at 105.5 Euro. Based on these expectations, if a products price was 111 Euro or higher it would be considered with an excessive discrimination. The reality in Albania is that the average price of the product in the local market is 179.7 Euro, based on the average of 150 products currently sold by three major market European operators.

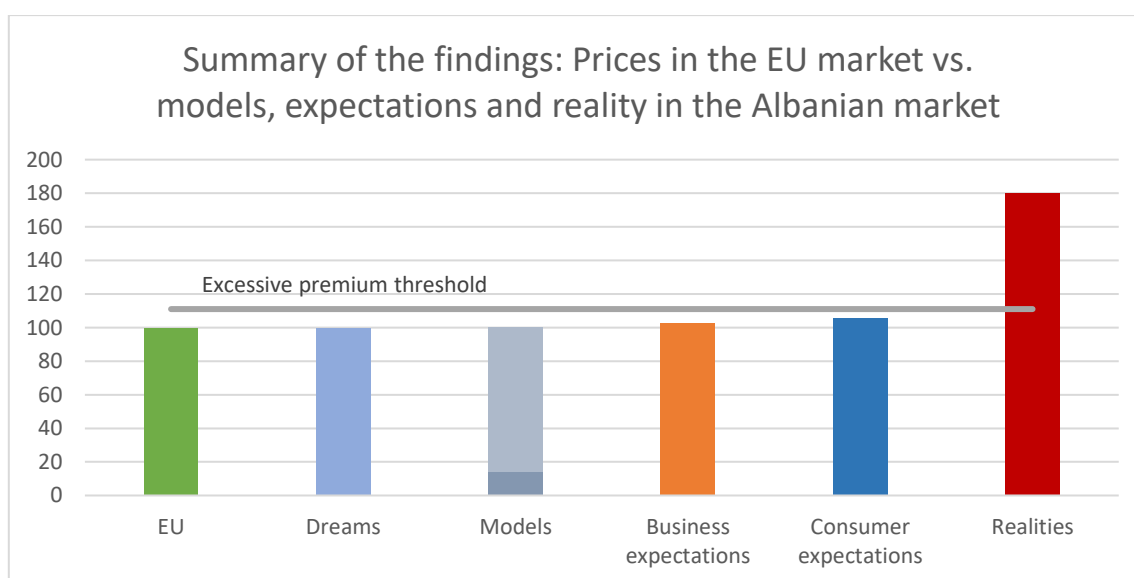


Figure 2: Summary of the findings

5. What is the problem here?

How is it that such significant high prices and excessive discriminations are consistently found in European products sold by European companies in the poorest country of Europe? How is it possible that against what models would predict, and contrary to consumers and business expectations, large and notable international firms sell their products in Albania at a significantly higher price compared to the price of the same products these same companies sell in their EU home-country market? What are the reasons for prices of such products to be substantially higher in Albania compared to the home-country market of these firms, but also relative to other countries, including those in the region with similar economic conditions as Albania? How is it possible that excessive discriminations are charged in the market not only by some firms, but the problem appears to be more pervasive than the evidence revealed in this research?

These are important questions for all Albanian citizens and not just another argument for political debates. This challenge and solutions to tackle them are critical for the future growth of the country. The analysis, unfolding in the next section of this paper, suggests that for the sectors considered, the Albanian economy is underproducing at a sub-optimal level of activity, resulting in higher consumer prices compared to European standards.

Higher market prices produce long-term negative consequences for firms operating in the market. Profitability achieved under sub-optimal levels of production destroys the growth potential and discourages firms from innovation, investments, expansion and diversification of economic activity with new products and services. Higher market prices make firms less competitive and uninterested in expanding activity through internationalization in regional and EU markets. Higher market prices predominantly on imported products erode the interest of trading companies in domestic production which offers far more modest market margins. Higher market prices in sectors with substantial entry costs lessens industry rivalry, fossilizes competition, and deters new business formation.

Higher market prices are undesirable from society's perspective. They deplete consumer welfare and misallocate economic resources by crowding out savings and eroding investments while negatively contributing to raising poverty levels and amplifying social discontent. Higher market prices distort consumption and deteriorate the costs and conditions of living for all citizens. They fuel social exclusion and are an important propensity factor for Albanians to migrate to other countries. Higher market prices accumulate wealth in the hands of fewer individuals and corporations, sharpen income disparities and build on the misery of unaffordable food for hundreds of thousands living on a pension or social assistance. Higher market prices discourage consumption and constrain the choice of the consumers. They act as a deterrent for prospective Albanian migrants to return home. Higher market prices on essential consumer goods amplify ripple effects and cascading costs of other goods and services produced by the economy, eventually slowing down consumption and economic growth. For citizens and tourists, they increase the costs of living in Albania and negatively shape the perception of the country. Higher market prices undermine democracy, exacerbate inflation, and weaken the effectiveness of policy measures by rendering them less effective and more expensive for the budget. Higher market prices observed during off-season periods are likely to rise further during the high demand peak of the tourism season, posing an additional and increasing threat for the most promising sector of the economy.

What's even more important is that leading and dominant firms operating in a market with pervasive high prices serve as role models. Their high-pricing strategies are copied and adopted by follower market operators, especially the smaller ones, infecting such strategies across the larger market. Higher market prices erode firms' productivity and the overall national competitiveness. Higher market prices are more likely to produce net negative effects for tax revenues, with further

negative implications for financing poverty reduction programs, pensions, health, social care system, education – effectively all public services and investments.

6. Analysis of factors enabling excessive price discriminations in Albania

Distinct trade preferences, full opening of the market through the free-trade regime of the EU-Albania Stabilization and Association Agreement and the integration process with the EU has oriented Albania's trade toward the EU: imports originating from the EU countries accounted for more than half of Albania's imports during 2023 (50.9 percent of total imports²⁴). Because of such an affinity, prices of products sold by European operators in European markets may be used as a good benchmark to compare the prices of the same products sold by the same companies in the Albanian market. The businesses surveyed in this study indicated that this is a common practice among many firms while others are also required by their parent companies to apply the EU prices in the local market.

When price differences (for the same products, offered by the same companies) between the Albanian and EU market are (i) consistently high through a considerable range of products, (ii) exceeding market participants' expectations and (iii) applied by more than one relevant market operator, internal forces of the companies are insufficient to explain the market failures. The presence of excessive discriminations, detected in all the products included in the panel selected for this study, and evidence that high prices exist across a much larger pool of market operators in Albania, indicates that the foundations of these market failures are linked to the structure and features of the national business environment. For this reason, the analysis is based on the assessment of the national business environment factors, using Prof. Porter's Diamond Model²⁵, rather than through the five forces model²⁶ that is focused on the company and micro-level industry analysis.

Two common fallacies

Before the analysis of the business environment context, it's important to discuss two common fallacies, often brought as false propositions in debates on economic policy in Albania.

*First fallacy:
If the product sells,
then the market is operating, let it be.*

The misconception that markets properly operate if products are selling at a given price is inherently wrong and fails to understand the dynamics of the market mechanism. It assumes a static view of customers accepting the price dictated by the seller which results in all market participants satisfied from the transactions occurring in the market.

The market mechanism is more complex and vibrant than this superficial and deceptive view. Each buyer has a unique willingness-to-pay for a product, which varies by the opportunity cost of that person's consumption alternatives. Adam Smith probably did not think for long about a desert context when he noted that *"Nothing is more useful than water: but it will purchase scarce any thing; scarce any thing can be had in exchange for it. A diamond, on the contrary, has scarce any value in use; but a very great quantity of other goods may frequently be had in exchange for it"*²⁷.

²⁴ INSTAT: Foreign Trade Database, 2023. www.instat.gov.al

²⁵ Porter, Michael: On Competition, 2008. Chapter 6: The Competitive Advantage of Nations.

²⁶ Porter, Michael: On Competition, 2008. Chapter 1: The Five Competitive Forces That Shape Strategy

²⁷ Adam Smith, The Wealth of Nations, Book I, Chapter IV

The individual willingness to pay for a product might be different from its market equilibrium price. However, it is the equilibrium price that separates losers from consumers with equal or higher willingness to pay. Ultimately, they are the ones to purchase the product (provided they also would be able to match the price with their ability to pay). The consumer utility surplus arises because consumers buying products at the market equilibrium price were willing to pay even *more* to obtain the product – not just an arbitrary price. Market equilibrium price in competitive economies is not arbitrarily determined by the firms, it reflects the balance by the pressure in the supply side with firms willing to reduce the price by improving efficiency. Well-functioning competitive markets achieve economic efficiency when the social surplus, including the producer surplus, is maximized.

What happens when market failures arise and through price discrimination the market price is *arbitrarily* set higher? Producer surplus increases, higher market prices reduce the consumer surplus of all the consumers purchasing the product. As a result, *some* consumers (those who's willingness to pay is less than the new, higher price) would be excluded from enjoying the product. But although the consumers surplus for *everyone* would decline and some consumers would be *left out* of the possibility of purchasing the product, the market would still *operate*. Even at a higher price, unless competitive or correcting forces emerge on the supply side, there would be consumers willing (and able to pay) the higher price. Furthermore, consumers are less responsive to price changes for essential goods, and demand may not change when prices increase, particularly in a context as Albania where consumers access to product alternatives or substitutes, is limited.

Second fallacy: If more than one firm operates in a liberalized market, then there should be no monopolies or oligopolies

A common and often shared misconception in public opinion defends the view that in a liberalized market economy, there are no monopolies or oligopoly positions by the firms operating in the market. Although monopolies, cartels and oligopolies are often and ambiguously brought up as interesting topics in the political discourse in Albania, references to specific cases are incomplete and vaguely addressed.

There is not much wrong with a firm being in a monopoly, oligopoly, or to use more technical terms, in a dominant position in any market. According to the EU definitions, for a firm “...a dominant position is the power to behave to an appreciable extent independently of its competitors, its customers, and consumers²⁸”. Monopolies, oligopolies and firms in dominant positions *exist* - virtually in any market economy. By definition, they legally operate, and their activity is part of the market mechanism. How firms in the dominant positions - including monopoly and oligopoly cases - *use their market power* to exert pressure on consumers or other firms is what concerns healthy societies. This particular and important aspect of the market is supposed to be subject of public and institutional scrutiny.

The global economy provides regular examples of firms in dominant positions operating even in the most competitive markets in the world. It is the role of the institutions in these economies that limit these companies from abusing, or correct abuse cases with dominant positions whenever they occur, through multi-billion anti-trust penalties imposed even on firms with global and notable reputations. Google (fined 4.3 billion Euro by the EU), Apple (fined 1.8 billion Euro by the EU), Microsoft (fined 2.2 billion Euro by the EU), Amazon and JP Morgan – these are just a few among notable high profile cases incurring penalties for anti-trust violations in the most competitive economies of the world. The US corrective measures of the anti-trust law go even a step further than

²⁸ Official Journal of the European Union: Guidance on the EU Commission's enforcement priorities in applying Article 82 of the EC Treaty to abusive exclusionary conduct by dominant undertakings, III.A.10: <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX%3A52009XC0224%2801%29%3AEN%3AHTML>

the penalty-based EU anti-trust legislation. Many Albanians may recall the recent story of their infamous co-national Martin Shkreli, who was found in 2022 to have violated antitrust laws with his monopoly over the drug Daraprim that allowed him to raise its price by 4,000 percent. Shkreli was fined \$64.6 million²⁹ but was also *banned for life* from participating in the pharmaceutical industry³⁰.

The fear from relentless market investigations, the effective leverage of the penalties imposed by the institutions amounting up to 10 percent of firm's annual revenue, combined with real, visible and persistent violation punishments, are formidable deterrents that limit companies from abusing with their dominant market position in developed markets. In addition, the strong voice of the citizens and consumers, fear from existing competition and new entrants that might be attracted by excessive prices in the market, as well as reputational factors (firms penalized for anti-trust violations do pay the penalties, but they also erode their public brand image) – are some other factors that influence companies in dominant positions to refrain from exercising their opportunities to abuse their positions, whenever they can. Otherwise, firms take advantage of it.

Diamond model analysis of the national business environment in Albania

Competitiveness at the national level reflects the productivity by which a country uses its resources, contributing to raising the living standards for all its citizens³¹. A fundamental factor to sustained productivity growth – translated in improved prosperity for everyone – is the process of relentlessly upgrading micro-level productivity of the firms operating in specific industries or sub-segments. More recent definitions, link competitiveness to the ability of domestic firms to compete in the globalized world³². While innovation is the key success factor for firms, the Diamond Model³³ explains the sources of the national advantages (or disadvantages) that enable firms to successfully compete in the market. Its determinants of the national business environment are the main attributes that jointly create the right (or wrong) playing field for companies to compete, upgrade over time, and contribute to improved living conditions for everyone. The Diamond Model is a powerful tool to assess differences in business environments versus prosperity levels between countries. It is used here to analyze the context of market failures identified in the research of the study.

Factor conditions

Locational advantages or disadvantages in factor inputs cannot explain the existence of excessive price discriminations in the Albanian market. None of the per unit cost components for a business operating in Albania is higher than the corresponding cost of businesses operating in an EU country. Material costs, labor force, office and space rentals, transportation, electricity and business taxes, for example – key cost components for trading companies, are increasing for firms operating in Albania, but none of these can match with EU countries – Albania is still a cheaper option.

Transportation costs are occasionally reported as an important barrier for firms operating in the Albanian market. However, the research indicates that the transportation costs are not significant part in the expenditures of the firms operating in the local market and their share in total costs is like companies operating in the EU markets. The transportation costs argument also fails to explain the significantly lower discriminations in neighboring markets. It is also not supported by the lack of

²⁹ Shkreli was also sentenced to seven years in prison, convicted of securities fraud and other offenses

³⁰ Federal Trade Commission: FTC Asks Federal Court to Hold 'Pharma Bro' Martin Shkreli in Contempt: <https://www.ftc.gov/news-events/news/press-releases/2023/01/ftc-asks-federal-court-hold-pharma-bro-martin-shkreli-contempt>

³¹ Porter, Michael: On Competition, 2008. The Competitive Advantage of Nations.

³² Porter, Michael: Microeconomics of Competitiveness, 2003-2015 class notes.

³³ Idem.

correlation between the excessive discriminations and the weight/size of the products included in the panel of this study.

Demand conditions

Local demand conditions support competitive advantages in prominent industries of the domestic market and they partly explain the existence of high prices in the Albanian market. Demanding buyers with sophisticated buying behaviors pressure firms to innovate, upgrade the productivity and offer unique products in the market. Four important aspects of the demand conditions in the Albanian market are particularly important:

Strong consumer's preference of Albanian consumers for European products. For historical reasons related to the opening of the Albanian economy in the early 90's, the affinity of Albanian consumers for European products appears to be much stronger than in the neighboring countries, which traditionally developed closer intra-trade relations within the region. Trade data reveals that food, beverages and tobacco imports from the EU countries, accounted for about half (47.9 percent) of Albanian total imports of such products during 2023³⁴. Furthermore, food and beverage imports from EU countries in Albania for household consumption during 2023 exceeded 600 million Euro and accounted for 14.3 percent of total imports from the EU. This ratio was only 6.7 percent in Serbia and 6.8 percent in North Macedonia³⁵. Such strong preference for EU products is explained by the confidence of Albanian consumers on European-made products, which are considered of superior quality and worth the higher price, compared to similar products originating from other countries or domestically produced. The lack of trust on quality standards for domestically produced goods or products imported from non-EU countries deserves a further analysis which goes beyond the scope of this study. However, it often comes with an extra price consumers must pay.

The elusive "small market size" argument. The pervasiveness of high product prices in the Albanian market is often tied to the *it's-a-small-market* cliché. At best this is an incorrect argument. Albania is not a small market. It may appear so relative to the larger economies but for specific industries, segments and firms, it is not. The collective turnover in the Albanian market of the three companies considered in this study exceeded 90 million Euro during 2022 and the figure very likely was well above 100 million Euro during 2023³⁶. Food products imports alone, originating from the EU exceeded 600 million Euro during 2023, while total food imports from the world, for the same year exceeded 1.3 billion Euro. These figures are certainly not small, even for global companies.

The *small-market-size* argument is not consistent with the cost-benefit analysis firms typically employ to consider pursuing new market opportunities or expanding business activities. If a firm operates in n countries, or has t branches, any expansion decision (unless for strategic behavior reasons) would consider and balance the costs and benefits from operating in the $n+1$ country, or opening the $t+1$ branch. But no serious firm would make such a choice by raising the prices of its products by 80 percent just because it's a small new market. If expansion costs outweigh benefits firms would rather drop such prospects.

The *small-market-size* argument fails to explain why excessive discriminations identified in this study are not on a comparable level in other countries of similar size to Albania, like Kosovo, Serbia or Greece, as noticed in the cross-country comparative assessment of this study.

³⁴ Author's calculations using INSTAT Foreign Trade Database, www.instat.gov.al

³⁵ Author's calculations using 2023 trade data, long term indicators, Eurostat.

https://ec.europa.eu/eurostat/databrowser/view/ds-057555__custom_11368584/default/table?lang=en

³⁶ Financial statements of all the companies operating in Albania are publicly available via qkb.gov.al

The effect of consumption taxes. The value-added tax is the main consumption tax levied on products across European countries³⁷. Although VAT standard rates in EU member countries are higher or at the same level as Albania's rate of 20 percent (except for Germany, Romania and Cyprus which have a standard rate of 19 percent, Malta 18 percent and Luxembourg 17 percent³⁸), there are variations of VAT rates levied on specific product categories. These reduced VAT rates for different products contribute to the final price of these products in the local market of each country.

Standard and Reduced VAT Rates, selected EU countries						
Country	Italy	France	Germany	Greece	Denmark	Croatia
Standard VAT rate	22%	20%	19%	24%	25%	25%
Reduced VAT rates	10%, 5%, 4%	10%, 5.5%, 2.1%	7%	13%, 6%	-	13%, 5%
Reduced rates applied for	Water, transport, food, books, culture etc.	Restaurants household work, farming, passenger transport, food, gas, electricity, art, cinema and sporting, services for elderly, medicines, magazines etc.	Foodstuff, books, cultural services, hotel accommodation, medical and dental care etc.	Food, accommodation, electricity, gas, heating, books, medicines etc.		Accommodation magazines and newspapers, food products, child car seats, catering, books, medicines etc.

Table 6: Standard and Reduced VAT Rates in selected EU countries, 2024

European Union reduced VAT rates for certain consumer products, particularly food, contribute to lower relative prices for some consumer products in these countries. They also contribute in price differences for the same products between these countries and Albania. However, the VAT rate variations between Albania and the EU countries (maximum 20 percent) is insufficient to explain the full magnitude of the excessive discriminations identified in this research.

Products sold by the companies are essential goods. The majority of the products considered in this study are consumption goods. Albanian consumers purchase these regularly for daily needs: food, detergents and cosmetics, for example. Given the price elasticity of demand is low for these goods, consumers are less likely to reduce consuming them even if prices increase, all other things remaining equal.

Related and supporting industries

The third component of the Diamond Model is the least relevant in this analysis. The operations of the trading companies selected for this research appear to be less dependent on other firms in the market, compared to companies that interact with supporting businesses to produce and add value to locally processed goods, depending by their efficiency in the market. As most of the products considered for the study are imported and sold in the market without any noticeable local processing

³⁷ Products with excise taxes are excluded from the study, as specified in the methodology.

³⁸ Based on author's research through official websites of the tax authorities in several EU countries during Spring 2024.

or assembling³⁹, the selected companies do not seem to rely on significant partnerships with local firms that may add value and influence their excessive discriminations. In a broader context, some companies provide services and support through auxiliary, non-core business function activities that have negligible or no effects on the excessive discriminations. Furthermore, financial institutions help the operations by facilitating credit to consumers and enabling transactions, employment agencies support training and match qualified labor force with market demand, and electricity companies provide energy supply, for example.

Context for firm strategy and rivalry

The national context in Albania influences the way companies are organized and how they operate in the market to ensure the best strategy fit to achieve company goals. The relative size of the consumer goods market favors a large number of small-scale operators scattered around the country combined with a limited pool of larger international and domestic competitors concentrated in the capital and the main urban areas of the country. Three main factors in this context are important for large firms, enabling them to operate with high prices in the market:

- **Firms are strategically positioned to adequately respond to consumer preferences for made-in-EU products.** By offering quality products produced or branded by the company or through partnerships, the companies can satisfy consumer's demand and preferences for superior quality products originating from the EU. To accentuate this advantage, the selected companies offer in their shops almost exclusively their products, originating and imported from the EU (except for one of the companies which appears to offer on a limited scale a few domestically produced goods). The quality of the products and their origin from the EU country are emphasized and are central to the advertising messages used by the companies.
- **Firms operate in the market as convenient grocery/furniture shops.** Differently from small-scale shops which offer a limited range of consumer products to their customers, the selected firms operate in the market by offering a relatively large number of products from a broad range of product categories, often serving as convenience stores operating for prolonged hours. Shoppers seeking to purchase specific home products find it more convenient to buy more products they would consume in the next days in the same store, than visiting different shops to purchase fewer items in each of them.
- **Firms operate in a market with limited competition.** The structure of the retailing market in Albania is very fragmented in the small-scale segment, but more concentrated in the medium and large segment, with few key companies dominating the market, some of which are international operators. In this segment and the wholesaling market the competition among the participating firms in the market is limited.

In addition to the above factors, brand names and reputation of the international firms, loyalty programs and sales promotions, advertising campaigns, as well as investments in business operations infrastructure, technology, workforce training and customer relations, also play an important role in the success of these companies in the local market.

Big micromonopolies

Why are firms able to charge high prices in the Albanian market? Given the above conditions prevailing in the local market, the response to this question is based upon the strategy companies adopt to prosper in the local market. Michael Porter suggests that *"the operational effectiveness of the firms is necessary, but not sufficient to succeed in the market: strategic positioning means performing different activities from rivals or performing similar activities in different ways"*⁴⁰. Competitive advantages deriving from

³⁹ See Methodology: firms selected for the study operate mostly on trading imported consumer goods in Albania.

⁴⁰ Porter, Michael: On Competition, 2008. Chapter 2.

efficiency improvements in the company operations are important for every firm, but there are limits to what technology and labor productivity can do. Positioning in the market in a strategic way that distinctively differentiates companies from rivals is what allows the companies to enjoy higher prices and profit margins.

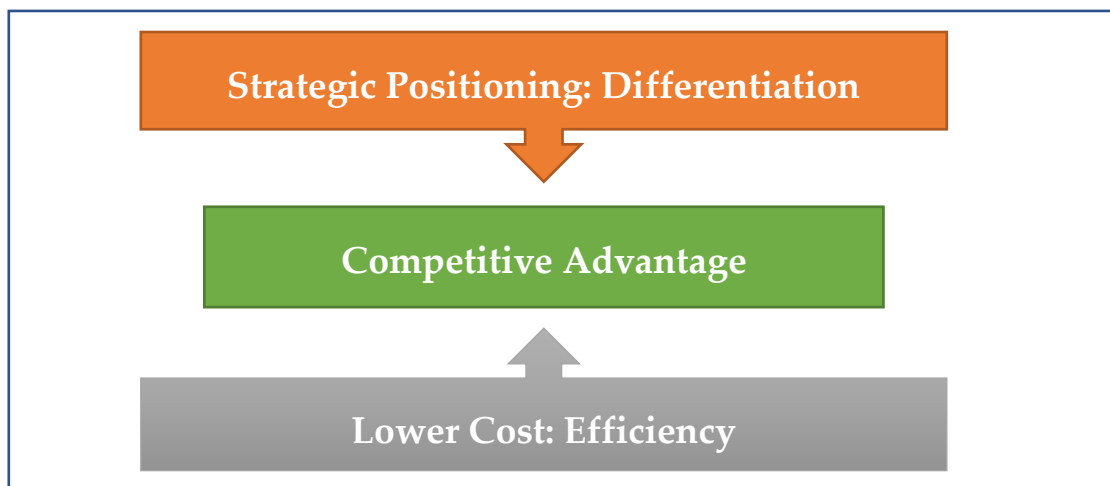


Figure 3: How firms create competitive advantage in the market. *Microeconomics of Competitiveness, class notes, Harvard Business School, 2003*

The distinct specialization of the companies in offering (i) superior quality, (ii) often unique, and (iii) preferred products for the Albanian consumers, is what enables each company to operate in a dominant position independently from its rivals. Let's call this market position a *micromonopoly*, where companies may set higher prices without reducing market share and profitability. In the context of a *micromonopoly* the entire market may appear as competitive by considering the total number of participating firms - the Business Registers indicate that during 2023 there were 8,614 companies engaged in trading activities in Albania⁴¹. There may be many firms in the market, but because of the high degree of specialization in the products the dominant firms offer, coupled with the lack of competition in the specific sub-segments they operate and the high entry barriers, firms may act as *de facto* monopolies within the smaller segments of the market. The lack of strong competition within these specific market segments, coupled with loose market surveillance enables *micromonopolies* to grow market power by raising prices. Firms are driven by profit maximization and from the *micromonopoly* position they are able to manipulate prices and charge higher prices. Eventually, the output is reduced, market power is strengthened and firms consolidate activity in a larger scale.

Why high prices are pervasive?

For many products in the Albanian market, there are often no significant price differences between the products traded by the companies considered in this study, and the same or *similar* products (imported or domestically produced) traded by other operators in the market. At least not in the magnitude of the excessive discriminations identified in the research.

This suggests that price discriminations or excessive market prices are not an exclusive practice of the companies identified in this study. The phenomenon appears more pervasive across the local market with further implications for the consumers and more challenges for sustainable solutions. In a market composed by many similar firms selling homogenous goods, if a company raises the price of the products, consumers may switch to other companies and the competition would drive the prices down. In contrast, if one big firm holds a dominant position and acts by increasing prices in the market,

⁴¹ INSTAT: Business Registers, 2023. <https://www.instat.gov.al/en/themes/industry-trade-and-services/business-registers/>

competition from smaller firms would be insufficient to exercise downward pressure and lower the prices. Smaller firms typically follow the lead of the larger firms.

According to the dominant position model⁴² large firms operating with high prices in the Albanian market, effectively drive the market prices up, even for products they don't trade themselves. The few other competitors of similar size in the market have strong incentives to mimic the strategy and avoid unnecessary price wars. Smaller operators, including small shops, either don't have capacity to compete, or their prices are locked by the limited competition in the wholesaling market. Eventually, they also conform and increase their prices.

High prices across a broad range of consumer products in Albania contribute to the very high share of the food and non-alcoholic beverages expenditure in the monthly expenditure of Albanian households. According to the Household Budget Survey for 2020⁴³ published by INSTAT, the share of food and non-alcoholic beverages expenditure in the structure of monthly expenditure of Albanian households was 41.6 percent. In contrast the average of the EU for the same period was only 17.1 percent, for Montenegro 30.7 percent and Serbia 28.8 percent⁴⁴. Low income level consumed more for essential goods is the obvious side of the coin, the other, perhaps less evident, relates to price differences of the essential goods.

These market patterns and symptoms exist in Albania since many years. The author is aware that the relative appreciation of the Albanian Lek versus Euro by about 20 percent during the recent two years (Spring 2022 – Spring 2024) has sharpened the contrast of the price discriminations discussed in this study - international firms selling imported products in Albania gain from the relative appreciation of the domestic currency because they purchase products in Euro and sell them in domestic currency. The fact that the local prices charged by the companies did not adjust by any margin to reflect exchange rate gains during this relatively long period, is a strong proof that competition in the market is insufficient to address the existing market failures.

7. The way forward

The excessive price discriminations identified in this research are, in the author's view, neither fair, nor tolerable in a country that aspires and strives to become a member of the EU. In terms of relative prosperity, Albania is the poorest country on the continent. Higher prices are detrimental to a country's development and by cascading in other products they pose huge economic and social barriers. They are not justified from a free-market perspective; the reduction and elimination of price discrimination is highly desirable for the society.

While the blame and the remedy for market failures is often attributed to government institutions, paradoxically, the government in this case, may not be the right answer.

The government is (almost) powerless to lead a change.

The government has a direct responsibility to set the optimal level of taxes in the country. To determine the optimal tax rates requires further analysis and indeed, some EU member countries⁴⁵ do

⁴² Canoy, M. F. M., van Damme, E. E. C., & Rey, P. (2004). Dominance and monopolization. In M. Neumann, & J. Weigand (Eds.), *The International Handbook of Competition* (pp. 210-289). Edward Elgar Publishing. <https://pure.uvt.nl/ws/files/679938/dominance.pdf>

⁴³ <https://www.instat.gov.al/en/statistical-literacy/household-consumption-expenditures-in-albania/>

⁴⁴ Eurostat, Structure of consumption expenditure by COICOP consumption purpose. https://ec.europa.eu/eurostat/databrowser/view/hbs_str_t211/default/table?lang=en

⁴⁵ Albania applies a reduced VAT rate 6 percent for accommodation, agrotourism, books, advertising services etc. but none of these product categories are related to this study.

not apply reduced VAT rates on consumer products. But learning from the best practices of most EU economies that currently apply reduced VAT rates, especially for food products, could be beneficial in the Albanian context. Reducing the VAT rate for specific product categories may be positive, but it would not resolve the problems identified in this research.

Given the modest track record of government intervention to regulate - or deregulate - markets in Albania and market concentration symptoms in various sectors, there are strong reasons that one must be rather skeptical on a remedy to the problems identified in this study coming from possible government actions. Although this option may not be excluded, there are stronger arguments suggesting it may be ineffective. Even if one day the institutions would wake up as the most formidable machinery to protect the citizens from unfair exploitations, committing to disregard special and political interests, seriously pledging to trade the bureaucratic and sophisticated interpretation of legal labyrinths with strong actions to protect the consumer's interest, eventually the government's measures, to a large extent, may be limited and ineffective. Here are the main arguments why this is the case:

- **Benefits largely outweigh penalties:** With the excessive price discrimination levels identified in the study, even the maximum penalties defined in the Albanian legislation⁴⁶ would be ineffective to correct violations of the law (assuming the authorities identify violations and then opt to impose fines). Similar to the EU and US legislation, the Albanian law specifies that for serious infringements the authorities may impose a maximal punishment and deterrence penalty up to 10 percent of the aggregate turnover (of the violating company) during the previous financial year⁴⁷. But many companies would be quite eager and may strongly prefer to pay a maximum penalty equal to 10 percent of their turnover, provided they are allowed to operate in the market with their prices 80 percent higher than the market expected price. A review of the financial statements of the three companies⁴⁸ selected for this study for the financial year 2022 indicates that even if the amount of 10 percent of the turnover of each company is added on top of their annual expenditures, *all the three companies would still be profitable*.
- **Burden of government penalties is on the shoulders of consumers:** If the authorities eventually find violations of the law and choose to impose penalties, the burden of the fines would be shifted by the companies in the final price consumers have to pay. As discussed above, all the companies appear to be quite able to softly absorb any penalty foreseen by the law within the margins they currently operate. As a result, penalties may serve to the government to raise additional revenues, but for the consumers, they may have no effects.
- **Weaknesses of the judicial system:** The government's potential penalties imposed on undertakings found in breach of anti-trust rules could be challenged by the firms in the legal system. Many factors, including the influence of lobbying and political factors, corruption and inefficiency in the judiciary system, weaknesses of the institutional capacities in defense of public interests, the superior quality of attorney firms defending the interest of powerful companies, and an overloaded court system, may result in prolonged court cases effectively postponing or rejecting possible corrective measures.
- **Government intervention on companies practicing excessive discrimination is perceived and/or leads to increased government regulation:** While excessive prices are a direct exploitation of consumer's interest and their existence justifies the intervention in the market, attempts to correct the market failure may strengthen the role of the government as a regulator in the market. This may result as counterproductive due to the capacities required, identified problems becoming

⁴⁶ Law on Competition Protection, section VI: https://caa.gov.al/wp-content/uploads/2023/06/Law_nr_9121_date_09.05.2012.pdf

⁴⁷ Article 74, Law on Competition Protection: Idem

⁴⁸ The financial statements of all the Albanian companies are publicly available online through the Trade Register, accessible at qkb.gov.al

permanent, political and special interests influence in decision making and the overall perception of excessive regulation in the country. Similar recent attempts by the government to regulate market prices through ad-hoc boards for specific products were often criticized, proved to be inefficient and were finally abolished by the Constitutional Court decisions⁴⁹.

The Voice of the Citizens

The “Go European!”, embedded in the title of the paper is an open call to the European companies charging excessive price discriminations in the Albanian market to *act European* in the same way as their parent companies operating in EU countries and revise their pricing strategies to reduce and eliminate without delays the excessive price discriminations currently charged in the local market in Albania. In the author’s view, the term *voice of the citizens* does not exclude any organization, including government, in its role *as a citizen* of the Albanian society. In fact, the EU experience has shown how the government can possibly act just as another good citizen of the society. During 2023, in the wake of the inflation surge in European markets, the French government called on all the supermarkets to cut down their prices to the minimal possible level, although the government did not have powers to force supermarkets to do so⁵⁰.

The voice of the citizens is the strongest and the only realistic pressure for companies to eliminate the price discrimination practices identified in this study. It is the only credible transformation leading toward a triple win-win-win solution for the whole society and the three major stakeholders: consumers, government and the companies. More consumers would benefit from lower prices, reduced deadweight loss, improved access to the products, increased savings and better allocation of disposable income, better living conditions and more hope for the future in their own country. The companies would increase their sales, expand their customer base, bring more products in the market, work to improve efficiency, upgrade productivity, compete with strategies, expand investments and their profitability in the market, strengthen their brands and image in the local community. The government would find out that it may raise more taxes from increased consumption and that there are unlimited ways to fight inflation, tackle poverty, social exclusion and many other important challenges in the country.

8. Conclusions

The study revealed that when market failures are tolerated and left to their own devices, markets, particularly in small countries with fragile institutional settings like Albania, can, and sooner or later, go bad and ugly. Persistent market failures produce incentives for systemic failures enabling firms to engage in price discrimination, charge higher prices and underproduce at a suboptimal level of economic activity. Ultimately, consumers bear the costs.

A tolerance culture for large firms operating in dominant positions, coupled with strategic positioning of the firms in the market to maximize profits and respond to the strong preferences of Albanian consumers for European products, high barriers to entry into the market, limited market competition, focus on essential goods with low price elasticity and the prevailing false belief that successful international firms are not prone to anti-competitive practices, are the main factors, in author’s view, that explain the presence of the unusually excessive price discriminations evidenced in the research. The relative appreciation of the Albanian Lek during the last two years, and the reduced

⁴⁹ Constitutional Court Abolishes Food Transparency Board.

<https://albaniandailynews.com/news/constitutional-court-abolishes-food-transparency-board>

⁵⁰ Why is France struggling to lower supermarket prices?

<https://www.reuters.com/markets/europe/why-is-france-struggling-lower-supermarket-prices-2023-08-30/>

VAT rates applied by several EU countries on specific consumer products (particularly food), also contribute, although to a much lesser extent and limited range, to exacerbate the price differences currently present between the EU and the local market.

While the study indicates that high prices for consumer products appear to be more pervasive in the market and not confined exclusively to the operations of the selected firms, the research acknowledges and appreciates that there are many other successful, small and large, Albanian and international companies operating in Albania that do not practice price discrimination in the local market – the prices of their products are either lower, or at the same level with the prices of the same products traded in the EU markets.

Although European prices are not by any definition price ceilings, they are the best possible option available for price comparisons and could be used as a fair baseline by many firms to determine the prices for their products in the local Albanian market. The cross-country comparative analysis suggests that variations from the home-market European prices in countries of the region, are within reasonable and acceptable levels, providing a positive model to consider in Albania.

The findings and the analysis are consistent with the theory on competition policy. The literature review conducted for this paper, suggests that dominant firms can engage in first and particularly third-degree price discriminations by charging different prices to different consumers for the same product, or different prices to different groups of consumers based on specific characteristics such as market location by specific country. For consumers in Albania, unfortunately this translates to higher consumer prices due to lack of substitutes or alternatives and lower price elasticity of demand in the local market. Furthermore, the approach of the study is consistent with the comparator test recommended by the European Court of Justice. This approach considers a comparative benchmark as a valid method to establish the presence of pricing abuse⁵¹. The authorities then have the right, should they wish, to proceed with an in-depth investigation in cooperation with organizations like the International Competition Network.

The study seeks to support dreams becoming realities that match the expectations of all the citizens and Albanian society through a transformative process for a better, more European, and functioning market in Albania. The “Go European!” is an open call to the selected European companies in Albania to *act European*, by taking (i) *tangible*, (ii) *quick* and (iii) *irreversible* actions to eliminate the excessive price discriminations for all the products they trade in the Albanian market. The Voice of the Citizens is the most credible and strongest driving power that may lead forward this triple win-win transformative process for Albania as a better place for all, through which consumers, firms and the government, jointly and mutually can, and should take advantage.

⁵¹ Case 27/76, *United Brands Co. v. Commission*, 1978 E.C.R. 209, 301, paragraph 253.

9. Recommendations

To consumers:

- Be informed about market choices, in a world of internet, information is more and more available and accessible by everyone.
- In a consumer-oriented society, organize and exercise your rights, they are not for free, nor a gift.
- Raise your voice and have your say.
- Beware of manipulations and short-term gains.

To businesses:

- Go European! Act European.

To institutions:

- Substantially reduce unnecessary social media exposure.
- Go European! Consider reducing VAT rates for specific product categories, particularly food, similar to many EU countries.
- Strengthen anti-trust legislation and its enforcement based on the specifics of the national context. Promote and strongly encourage more competition in the market.
- Do the job expected by the law and by the taxpayers.

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