

REGULATION OF NATURAL MONOPOLIES IN SERBIA

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Abstract. *In Serbia economy traditional system of natural monopolies regulation is maintained, in which state is a sole owner (generally) or an owner of the greater part. It is obvious that deregulation of natural monopolies is necessary, for private capital (especially foreign one) will try to avoid investments into enterprises which are owned by unreliable owner, that our state has been in the recent period, while on the other side, state as an owner has not resources for recovery of those enterprises, majority of which are in poor economic conditions. Even the budgets of developed countries were not able any more to finance high capital - intensive investments in those systems which were caused by dynamic of demand, so that the question arises on possibility of private capital to be invested in this area.*

Monopoly analysis should give state agencies the model of preventing behavior of oligopoly firm that undermines competition and harms social welfare. In case of Serbia, the state will, after separating monopolies from natural ones, have to take care of analyzing natural monopolies again, as well. Great improvements in technology have resulted in essential changes in understanding natural monopolies, it has been made possible the systems which were though to be organic unit to "split", and numerous fields which were classified as natural monopolies nowadays have not to be any more, and that makes real natural monopolies to be found in few fields only.

Every public service can be decomposed in to constituent parts, some of which can be separated and made private. Thus electric power industry system can be separated into a lot of subsystems, and one of the options could be, for example: production, power network, local distribution, appliances and equipment. There are possibilities for including private capital in the fields of production of electric power and devices, while infrastructure (that is network) has to be kept in public ownership. When local distribution is concerned the situation is not that clear, for an alternative is possible - regulation can be given both to agencies or market. Privatization in the field of electric power industry can

be various - from home and world stock market, over mergers and joining, to finding out strategic partner. Concession arrangement (BOT and BOO) are possible too, the ones which could be suitable for building new production capacities on future liberalized market.

Post office, being public service, can be subdivided into: windows, sorting mails and delivery. Windows can be made private and rented to private persons, sorting must stay public service, while in delivery two solutions are possible. Railway, as an example of natural monopoly can be viewed as being a set of separate unit composed of the following: rails, railway cars and railway stations. Rails and stations should be owned by the state, while cars could be made private. Situation in gas industry is like the one in electric power, and they were as units considered to be natural monopolies, but nowadays it is possible to separate networks, devices and local distribution.

In contemporary conditions real natural monopolies are to be only infrastructures in the field of railways electric and gas, due to technical features that rails, long - distance power lines and pipelines possess.

Telecommunications, for example used to be in the scope of post office, which in most countries are completely owned by the state. However, having separated this segment and after liberalization on the communication market, and after some big sales (BT, DT), ideas concerning this field went to the other extreme. Nowadays even in the scope of telecommunications there is identification of industrial parts, which can be put on the market as units: local telecommunications, network and telecommunication devices manufacturing. In such cases, competition in some market segments is possible and desirable, while in the other segments of the same market it is not, e.g. local telephone network is a natural monopoly, while in intercity networks competition can be pressed. In USA vertical separation in the field of telecommunications has been done, - intercity telephone - telegraph communications are owned by AT&T, while local one is owned by Bell Company. It is the task of the state to identify and divide into segments such markets, and also to provide competition on each one of them where it is possible.

In contemporary conditions the very regulation of natural monopolies in question, for some economists (Baumol) think that it is not necessary to regulate them in cases where there is freedom of entry and exit from the market. In such cases potential competition (that is competition threat) is enough to make monopoly behave as they are to do on the market.

In finding optimal relationship between regulation and competition (state and market) from the point of maximizing efficiency, it has to be started from market conditions. If the market is competitive or potentially competitive - state policy will be deregulation, and market policy liberal, in addition to eliminating subsidies and keeping antitrust policy. When network market is concerned, where private ownership and competition are possible vertical or horizontal separation can be done, barriers to entry on the market removed, and antitrust policy kept followed by deregulation policy. Relation between competition and (de)regulation on the network market where competition is possible can be done in the other way as well, by inducing competition and removing barriers to entry on the market, the state can regulate prices, conditions for joining the network, quality. In conditions of natural monopoly where market competition is possible, market behavior will consist of competing for a contract, while state will invite tenders and conclude contracts and control quality and prices. At last, real natural monopoly where there are no conditions

for competition should stay in the state ownership and be subject to regulation of prices, quality control and financial limitations.

The aim of efficient economic regulation is to protect consumers and producers "evil monopoly", and to ensure maximization of social welfare. Price of infrastructure services must be as close as possible to the price the consumer will pay on the (supposed) free market of those services, the one which should enable producers to cover operating costs and realize profit.

Institutional solutions in establishing regulation can be either good bases for efficient regulation or basic obstacle to efficiency. In choosing the organ which is to carry out regulation, advantages are on the side of an independent Agency in regard to ministry (administrative organ), when conflict of interests of operative and regulative functions are to be avoided. Economic regulation method selection depends on specific conditions in which the methods are applied (knowledge on regulation level, regulation institutions functioning), as well as complexity of the very method application.

There is an option for our country at the moment - either to regulate prices directly (and that has already proved to be an inefficient choice and non - coordinated with contemporary trends) or to make vertical separation. Vertical separation changes organization structure monopoly that is the part which is not natural monopoly is separated and made private, and thus the firm which keeps being natural monopolist will lose the interest to limit competition in separated part. If the state wants to keep existed organization of the firm, but the competition as well, then it has to take measures for direct price regulation. After identification of real natural monopolies, on those markets, there should be taken into consideration, from the aspect of application in our conditions, all the ways of rising market competition, such as the following: fighting markets, franchise, intermodal competition.

Monopoly position can be held by those enterprises which are real natural monopolies where one enterprise is enough to meet aggregate demand. In other cases, based on west countries experience (countries in transition have not yet got enough experience tested in practice), competition can be introduced. In fields such as: electric power manufacturing refining of oil, intercity telephone communications and the other fields, contemporary technology enables more efficient production, lower costs and introduction of competition. Those fields are united in our country, and it forces the need for separating them before they are subject to competition. The only power capable (and motivated) for such an ambitious and difficult task is state. If this job is left to the new owner if is not to be motivated for structural separation; on the contrary - it would be more suitable for him to own as big part of the reproduction line as possible. That is why the state will, if it wishes to make private those fields which are not real natural monopolies, have to transform them first, and after that to offer for sale. Separation after privatization has a lot of disadvantages, and it could be a kind of "deceit" of new owners (losing the most favorable position on the market, depreciation and the like).

Efficiency can be made higher in certain conditions even with the threat of introducing competition, and it gets in importance in contemporary conditions in privatization of public enterprises which were in monopoly position before that. Privatization itself, if it is not followed by liberalization of entry to market and strengthen potential competition, will not prevent monopoly behavior, but only what will be done is moving monopoly from one (state) into another (private) form of ownership. It is to be discussed, however, whether

potential competition is efficient enough as an individual instrument or it is more efficient if it is joined to state regulation.

"In condition of economy in transition, such as ours, consistent system of measures includes the following: privatization, liberalization and deregulation. At the same time, such measure system supports market contestableness." (Cerovic, 1991.)

It is not necessary the privatization to result in growth of efficiency when it is in uncompetitive environment, and in such situations some other solutions are to be looked for. Privatization is mostly applied to gather with liberalization because public enterprises are looked upon as solutions in cases where competition is not possible (or it lessens social welfare), and it brought the other extreme, that is complete absence of competition. The other reason is that those enterprises are usually in monopoly position and which they often keep after the privatization, and it is just because of that inactivity in the behavior of privatized public enterprises that privatization must be supported by liberalization. Privatization of the enterprise which has monopoly position on the market leads to increase of internal efficiency and but at the same time decrease of allocable efficiency, if this procedure is not followed by state regulation or competition.

Monopoly deregulation process in our country has not yet seriously started, although even back in the Law on Ownership Transformation deregulation and ownership transformation of the enterprises in monopoly position was fore seen. Successful carrying on of the process is to be one of the preconditions for inclusion into European and world economic flows, and that is especially emphasized in the areas of traffic. Special problem is to be railroad transportation, which legs behind in everything and is not able for inclusion into European railroads. Taking into account high capital intensity, that is one of the basic infrastructure characteristics, and financial incapability of our country, it is real the entry of foreign partners in those areas to be expected. Sale of telecommunication was the first step in unknown terrain for us, and it was criticized very much due to numerous failures in every stage of the procedure, and it is just because of that, that every step like that will have to be prepared carefully and done in public.

The problem will be the fact that neither deregulation nor ownership transformation can be carried out at once. Those are long - lasting procedures, especially in delicate fields of natural monopolies, and thus possibility remains EU to be actively included in the processes, which are to be forthcoming to Serbia economy.

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REGULACIJA PRIRODNIH MONOPOLA U SRBIJI

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U srpskoj privredi je zastupljen tradicionalni sistem regulacije prirodnih monopola u kome je država jedini (uglavnom) ili većinski vlasnik. Očigledno je da je deregulacija prirodnih monopola neophodna, jer će privatni kapital (naročito inostrani) bežati od ulaganja u preduzeća koja su u vlasništvu nepouzdanog vlasnika, kakvim se pokazala naša država poslednjih godina, dok sa druge strane, država kao vlasnik nema sredstava za oporavak ovih preduzeća od kojih je velika većina u lošem ekonomskom stanju. Budžeti čak i razvijenih zemalja nisu bili više u mogućnosti da finansiraju visoko kapitalno-intenzivne investicije u ove sisteme koje su bile uslovljene dinamikom tražnje, tako da je došlo do preispitivanja mogućnosti učešća i privatnog kapitala u ovu oblast.