

## **Administrative and Structural Reforms in Russia**

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### **1. Introduction**

Nowadays systems of governance are adapting to global transformation involving more cooperation between countries, intensified economic competition, and new technologies. Regulatory principles necessarily differ from country to country. Governments can choose from a variety of regulatory and non-regulatory policy instruments with very different implications for results, costs, distribution of benefits and costs, and administrative requirements. One way to improve the development of good regulatory governance is to understand the success and failures of reforms already undertaken or being implemented in different countries. In this paper we provide a short overview of the Russian experience in preparing and implementing administrative and structural reforms.

### **2. Administrative Reform in Russia**

Administrative reform is under way in Russia at the present moment. It is stimulated and initiated by the President of the Russian Federation. In his Message to the Federation Council of the Russian Federation in 2003 the President said that “administrative reform is to be held because of excess functions of authorities at federal, regional and local levels. The Government has verified functions of Ministries and authorities, and there are five thousand functions. So it is necessary to reduce the number of functions of authorities having this verification as basis. The number and the content of each function should be examined very carefully. The quantity of redundant functions of authorities (federal, regional, local) is to be reduced along with the division of powers between different levels of authorities”.

Besides in August 2003 the Program of social-economic development of the Russian Federation for medium-term period (2003-2005 years) was adopted by the Government of the Russian Federation. In this program the necessity of administrative reform has been emphasized. The program states that “it is necessary to eliminate administrative barriers which unreasonably restrain business activity”. The main target of administrative reform is defined as “the increase the effectiveness, quality and transparency of State machinery activities”.

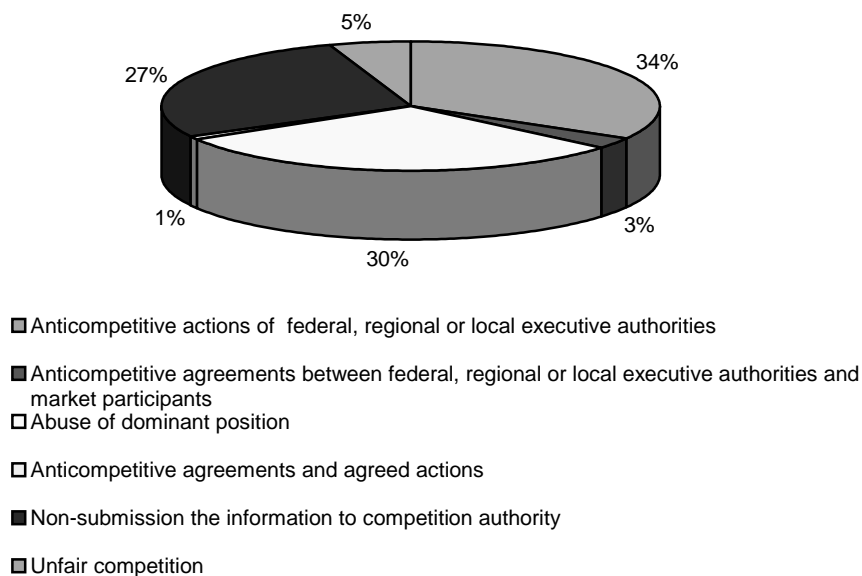
To prepare the necessary basis for administrative reform the Commission on Administrative Reform has been established. It was established in July 2003 by the Decree of the President of the Russian Federation №824 “On measures for implementing the administrative reform in 2003-2004 years” and the Decree of the Government of the Russian Federation №451 “On Commission on Administrative Reform”. The Commission coordinates the activities of federal, regional executive authorities, as well as the activities of interested organizations and public associations in the field of administrative reform implementation.

There are several working groups at the Commission, which make the analysis of functions legally fixed and actually exercised by federal executive authorities, prepare the drafts of legal acts for abolishing the redundant functions of federal executive authorities, prepare the documentation on other aspects of administrative reform taking into account the development of self-regulating organizations, competition environment, etc.

There are several expert groups within some working groups. They consist of the representatives of executive authorities (ministries, commissions, etc.) and public organizations. Expert groups make most of analysis concerning the content of possible redundant functions of federal executive authorities, and then provide their recommendations to the corresponding working group. The latter is responsible for making the decision on the given recommendations and providing its decisions to the Commission for approval. Then the Commission provides the results of the work to the Government of the Russian Federation. The Decision of the Government will take the form of law drafts, which go along the usual line of law making process in Russia (the State Duma – the Federation Council – the President). The key competition law in Russia is the Federal Law “On competition and restriction of monopolistic activity on commodity markets”. The aim of the Law is to define the legal framework for prevention, restriction and suppression of monopolistic activity and unfair competition, to ensure the conditions for creating and efficient functioning of commodity markets. The provisions of the Law cover not only the anticompetitive actions of market participants, but also the anticompetitive actions of federal, regional or local executive authorities.

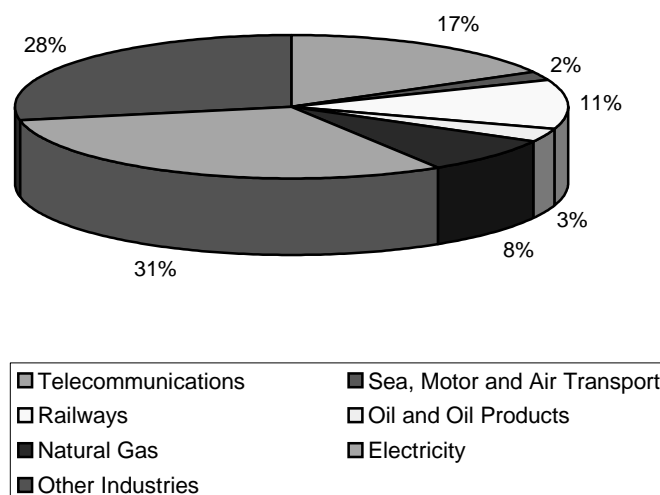
The necessity of structural and administrative reforms follows among other from the practice of competition law implementation (see Figure 1).

Figure 1. **The Structure of Competition Law – Infringements in Russia (in 1999-2002)**



So about 34% of infringements of competition law in 1999-2002 is concerned with anti-competitive actions of federal, regional or local executive authorities. Most of anti-competitive actions come from regional or local executive authorities. Concerning federal authorities the majority of infringements are on the side of the Ministry of Railways, which combines the functions of federal executive authority and market participant.

Figure 2. The Structure of Competition Legal Proceedings Concerning Abuses of Dominant Position on Commodity Markets (in 1999-2002)



### 3. Structural Reforms in Russia

Concerning sectoral structure of competition law infringements in Russia about 80% of abuses of dominant position are in the areas with natural monopoly segment (for example, energy, telecommunications, transportation markets).

It is necessary to mention that besides the Law “On competition” there is also the Law “On natural Monopolies” which was prepared by competition authority in 1994 and is of pro-competitive nature.

With the adoption of the Law “On natural Monopolies”:

- The institute of independent regulator has been created,
- The list of regulated areas has been defined,
- The basis and the procedure of decision making concerning regulation, including price regulation, have been established.
- Besides the vector of reforms has been formulated: that is the unbundling of potentially competitive spheres from natural monopoly ones.

The important fact is that the latest amendments to the Law “On Natural Monopolies” were concerned with statement that access to natural monopoly spheres should be in accordance with competition law. At the same time the latest amendments to the Law “On competition” were concerned with introducing a mechanism to ensure ex ante non-discriminatory access to natural monopoly spheres.

We can single out some essential features of the structural reforms in Russia. In our view, it is necessary:

- To open some market segments for competition and market price setting,
- To set tariffs on economically reasonable level,
- Price regulation should only be in natural monopolies segments,
- Successful reforms and the formation of price setting mechanisms on reasonable economic basis are possible if the steps for address social protection of the poor citizens are taken and the payments with budgets of all levels are put in order; The control for compliance with the provisions of competition law should be built within the mechanisms of preparing the reform programs as well as the mechanisms of accompanying these reforms;
- There should be a combination of structural and behavioral measures;
- There should be not only the transformation of current market participants, but also the creation of conditions for development of independent market participants. Finally we provide a short summary of Russian experience in competition development and regulation of natural monopolies (in such fields as telecommunications, railways and electricity).

#### ***A. Telecommunications***

Concerning *telecommunications* the existing regulatory regime has already allowed the development of competition and substantial entry of new participants into the industry.

For efficient administrative and structural reforms it is important to make more precise and redistribute the powers of corresponding authorities.

Competition authority undertakes the control over mergers, acquisitions, anticompetitive agreements, prevents and suppresses abuses of dominant position (including excessive or predatory prices). The primary tasks of the Ministry of Telecommunications cover a long term strategy of telecommunications industry, its technical supervision and control and participation in management of incumbent telecommunication operator.

As for functions of independent regulator the following functions are usually described: price regulation, universal service regulation, interconnections regulations, licensing, allocations and use of scarce resources. Concerning price regulation, universal service regulation, interconnections regulations, these functions are quite well established and are implemented by independent regulator. So their implementation is in line with international best practice for this field. Such functions as licensing and allocations and use of scarce resources are carried out by the Ministry of Telecommunications and need further improvement in particular because of the Ministry's of Telecommunications participation in management of incumbent telecommunication operator.

Besides, two principles should be mentioned. The first one is established in WTO Protocol on telecommunications of 1998 and has been adopted in Russia: the necessity to separate functions of independent regulator and the Ministry of Telecommunications. The second one similar to EU Directives is the necessity to set close interconnections between competition authority and independent regulator. In particular this principle can be realized in the combination of these functions within a single authority. Positive examples of this can be found in Russia, Kazakhstan, Australia and the Netherlands.

## ***B. Railways***

In the sphere of *railways* the purposes and principles of structural reforms include the division of functions concerning state regulation and management, unbundling of natural monopolies segments from potentially competitive ones, the gradual abolition of cross-subsidizing, the improvement of tariff policy, the development of competitive sector.

The key for structural reforms in railways is the separation of executive power of the Ministry of Railways and the activity as a market participant with the creation of OAO "Russian Railways".

Besides for efficient reforms it is important to ensure non-discriminatory access to infrastructure of federal railways and railways infrastructure, to guarantee financial transparency and to improve investment's attractiveness of the sphere of railways. Recently our Ministry has prepared the draft Decrees of the Government of the Russian Federation named as "The Rules of non-discriminatory access of carries to infrastructure of railway transport" and "The conditions for interaction between operators and OAO "Russian Railways". In these documents the principles for ex ante compliance with the requirements of competition law in part of non-discriminatory access are established.

## ***C. Electricity***

The basis of reforms in *electricity* markets is the unbundling of natural monopolies segments from potentially competitive ones. Among the aims of reforms electricity it is worth mentioning the creation of competitive markets of generation and selling of electricity, the creation of conditions for efficient operation and investment's attractiveness, the transparency in finance of natural monopolist to pursue an efficient tariff policy. There are several stages during the reforms. At the first stage the sufficient legal basis is to be prepared, and organizational and management base for transition to competitive wholesale electricity market should be created. At the second stage competitive wholesale and retail electricity market will be developed. At the third one the formation of infrastructure and the achievement of the steady development of the electricity industry is to be completed. Currently the trading system operator has been already established by market participants. Wholesale generation companies are under creation under the Decree of the Government of the Russian Federation.

A legislative package of six acts on power industry reform has been adopted recently. The laws were signed by the President of the Russian Federation in March 2003. The key law in this package is the Federal Law "On Electric Power Industry". It establishes the centralized nature of operational dispatch management and power transmission, establishes the requirement for the launch of a competitive market in the power generation and distribution sector. It also introduces a mechanism safeguarding the investors' rights and the guaranteeing suppliers' concept.

Within the frameworks of the Federal law "On competition" and the Federal Law "On Electric Power Industry" our Ministry has prepared the draft Decrees of the Government of the Russian Federation named as "The rules of non-discriminatory access to natural monopoly areas and the services provided by the Trading system operator" as well as "The standards of information disclosure by natural monopolist and participants of wholesale and retail markets".

#### **4. Conclusion**

Regulation in its many forms is among the most important tools of government in each country. Quality regulation is crucial for government effectiveness. Nowadays many countries have focused on the functioning of the administrative processes through which regulations are developed, implemented, adjudicated and revised. Russia is among these countries. Administrative and structural reforms are important instruments to improve the efficiency and competitiveness of national economy, to ensure its stable economic growth. Administrative and structural reforms are under way at the present moment. Though the main effect of administrative and structural reforms in Russian natural monopoly's areas will be obvious in medium and long-term period, the implementation of reforms at their first stages has already allowed improving significantly the investment and entrepreneurship environment.