

Issues of structural reforms have always been in a focus of the Federal Antimonopoly Service (the FAS Russia). Up to the present moment, the Russian Federation gained a huge experience in structural separation of key economic industries such as oil and gas sector, electricity, telecommunications, sea and river ports services, water supply services, waste services. Such reforms allowed to mark potentially competitive market segments, eliminate entrance barriers as well as to obtain an effective interaction between competition and regulated sectors.

Natural gas market

In the Russian Federation the wholesale market of natural gas is non-competitive due to technological features of gas transmission to consumers. According to the current legislation, gas transmission is natural monopoly activity. Gas transmission is carried through the United Gas Supply System, regional gas supply systems, gas distribution systems and gas distribution systems of independent organizations. The major of the gas supply systems mentioned above are owned by “Gazprom” OJSC and its affiliates. However it should be noted that group of companies' structures “Gazprom” OJSC includes a number of organizationally and financially independent companies exercising extraction, transmission and sale of natural gas.

Natural gas exchange trading is a competitive segment of the wholesale market of natural gas distribution. The separation of this segment took place in accordance with measures taken by the Government of the Russian Federation. Nowadays the FAS Russia developed the rules of non-discriminatory access to gas supply systems aiming at providing of equal access to the market for all the economic entities.

The development of the natural gas exchange trading on the national market of the Russian Federation has led to decrease of its cost below the regulated one. Natural gas exchange trading dramatically improves the situation on the fuel market and gives an opportunity for consumers to choose a supplier. Approximately 20 mln cubic meters of natural gas were sold during the first auction in October, 2014, up to 200 mln cubic meters – in November.

Electricity

The most important step to the liberalization of electricity was the adoption of a number of Federal laws in 2003¹. One of the main principles of competition development in the sphere of electricity is a principle of separation of activity on electric power transmission and (or) operational dispatch management (natural monopoly

¹ The Federal law dated March, 26, 2003 “On electricity”; the Federal law dated March, 26, 2003 № 36 “On features of electricity functioning in transitional period...”

activities) and activity on production and purchase and sale of electric power (competitive activities). The prohibition on combining these activities was established on April, 1st, 2006.

Compliance with the requirement of this prohibition is supervised by the competition authority. The Federal Law № 36 established the possibility of the forced sale of the property of persons combining competitive and natural monopoly activities by the competition authority's claim. It aims at preventing of such combining and creation of effective competition environment in the electricity market.

Today it can be declared that the participants of the electricity market strictly accomplish with this prohibition.

Railway services

Structural reform in the railway industry, the elimination of the Ministry of Railways of the Russian Federation and the creation of a competitive market of carriers have created conditions for the application of market-based pricing methods. One of them is the introduction of "dynamic model" pricing in a separate deregulated segment, in particular, in the segment of the rail passenger public long-distance services. The pilot project includes 154 high-speed and passenger trains running on 32 routes. Dynamic pricing on travel documents (tickets) on long-distance trains is to set a price of travel documents depending on the pace of sales of travel documents, forecast of demand for all transportation segments, actions of competitors and other market factors separately on each route in the dynamic pricing program.

This program is used on the routes with interspecific competition (the carriage of passengers by rail, road and air transport). The program aims at the development of competition in the market for passenger transport by different means of transportation.

Due to the introduction of dynamic pricing in 2013 there is an increase of passenger traffic in the deregulated segment up to 3% compared to 2012. In January-September 2014 the increase of passenger traffic in the deregulated segment totaled in 17.3% compared to the same period in 2013.

In general, on the routes with dynamic pricing an increase of revenue at hand with the reducing of average revenue per passenger are evident.

Approximately 83% of passengers buy their tickets at a cost below or at the level of tariffs which were in force before the introduction of dynamic pricing.

In order to build a transparent system of relations between the participants of the transportation process, the FAS Russia along with the participants of freight rail transportation services have started to create commercial market infrastructure (CMI) in the sphere of railway transportation market.

CMI should be an effective mechanism for co-regulation of production and turnover of services for the carriage of goods, providing non-discriminatory access for the stakeholders to perform entrepreneurial activity. CMI is also supposed to be the mechanism for protection and development of competition in this market, as well as a mechanism for adequate technical, tariff and antimonopoly regulation of product markets in the sphere of railway transport.

Telecommunication services

The market of telecommunication services has its significant features, which should be considered in the process of determination of the ways and methods of regulation. The priority is to provide global information exchange, to implement the constitutional right of citizens on information, to increase the investment attractiveness of the industry and its effective development.

These features determine particularity of competition development in telecommunication markets.

First of all, it is an activity in resource-limited settings:

- the limited numbering;
- the limitations of the radio frequency spectrum;
- the limitations of the physical infrastructure.

The market of telecommunication is the example of successful technological competition where traditional services are complemented and sometimes displaced by new services. If 10 years ago the technology defined service functionality, nowadays the situation is opposite – a consumer pays less attention to the technology of a service, a person chooses functionality, based on a price and quality.

Another important feature of competition in the telecommunication market is impossibility to separate activities of competitors. Communication network in the Russian Federation is a unified, interconnected infrastructure and therefore all operators, which are competitors, interact. Accordingly, the activity of each of the operators depends on the activity of its competitors to various extents.

Features of functioning of the market is reflected in the picture of the antimonopoly regulation: more than 50% of violations (95 cases of violation of the antimonopoly legislation were investigated in 2013) are the facts of abuse of dominant position; 15 decisions established the facts of unfair competition; 5 anticompetitive agreements were found.

Telecommunication markets are resource-intensive, and it is expected that the major of violations is related to the access to infrastructure. This access can be divided into two parts: the access to the communication network (issues of interconnection and interaction of telecommunication networks), and access to communication facilities such as cable line infrastructure, special buildings and objects.

On the 29th, November, 2014 the rules of non-discriminatory access to telecommunication infrastructure². These rules require the owners of infrastructure to provide it for connection with telecommunication systems. Moreover, the owners should register all the applications for access. Implementation of these rules will create transparent, non-discriminatory conditions for distribution of telecommunication systems. It will low investment risks and significantly decrease the barriers of entrance to the telecommunication market for new participants. It will also influence the development of regional telecommunication markets and allow to reduce the “digital gap” among the regions.

² The Decree of the Government of the Russian Federation dated 29, November, 2014 № 1284 “Rules of non-discriminatory access to telecommunication infrastructure”.

Loading and unloading services in sea and river ports

Loading and unloading operations are services for loading and unloading of freight on and from ships, which are provided through a service contract on a paid-for basis.

The market of loading and un-loading services in Russian ports is an example of a market with undeveloped competition.

The main barriers to enter the market of loading and un-loading services include barriers related to development of ports' infrastructure and barriers concerning the access of economic entities to the activity in ports.

The main barrier to enter the market of loading and un-loading services is the necessity of significant investments with long-term return on investments.

These economic restrictions are related to the necessity of procurement of special capital intensive technical equipment and hydrotechnical constructions.

Economic restrictions also include: necessity to prepare the projects of loading and un-loading operations and the high cost of this process, requirement of exercising dredging works, dependence on navigation (i.e. its seasonal nature) and, as a result, the upkeep of staff during the winter period (for freezing ports).

One more barrier breaking development of port infrastructure is absence of private docks.

At the same time, there is a tendency of transition of the loading and un-loading services market from natural monopoly to competition. Particularly, the tendency is an increase of the number of economic entities providing loading and un-loading services in ports.

Actually, after conducting a market analysis, the FAS Russia jointly with Federal Tariff Service of the Russian Federation (the FST Russia) made a decision to cancel price-setting regulation of subjects to natural monopolies operating on a market of loading and un-loading services.

At the same time, the coordination of means of transports' interaction in different territorial levels in the scale of the country, regions and cities remains one of the most important and complex problems.

In the scale of the uniform transport system (UTS) the main part of freight and passenger carriages are executed by two or more means of transport.

Thus, 80% of freight transported by railway is loaded and unloaded by industrial transport. Approximately 90% of freight arriving to sea ports is transferred to railway transport. Around 50% of freight from river transport is further transported by railways.

However, the existing conditions of interaction of different means of transport cannot be regarded as optimized.

The central points of interaction are transportation hubs where different means of transport run into one. Due to different reasons, in the past the engineering and construction of different means of transport were usually executed separately, without taking into account the fast transition of freight and passenger streams from one means of transport to another. Actually it represents a real obstacle to the development of the loading and un-loading services market in ports.

Water supply services

Actually, the activity of water and sewage utilities organizations is regulated by the Federal Law dated December 7, 2001 № 416 - FZ “On Water Supply” and Bylaws issued in accordance with it.

According to the Russian legislation, water supply through a centralized water supply system is related to the activity of natural monopolies. Therefore such activity is treated as the activity of economic entities occupying a dominant position in accordance with antimonopoly legislation.

Water supply of final consumers is executed on the base of a model water supply contract, the main conditions of which were adopted by the Russian Government.

For the beginning of legal relations, a consumer should have the connection of an object of capital construction to water supply networks made in accordance with the established proceedings. Such connection is performed by a water and sewage utility organization based on a commercial contract for a price established by an tariff authority of the concerned region of Russia.

One of the barriers to enter the market of water supply system is the possession of an object of centralized water and sewage utilities system and an existing tariff being issued in accordance with the established proceedings.

Persons owned centralized water supply system (or a part of it) are obliged to exercise water transportation till the final consumer. They have a right to charge a consumer as a compensation for transportation until receiving a tariff.

Currently there are no limitations for the water and sewage utilities organizations to combine the activities of supply and transportation of water.

Waste collection services (waste collection, landfilling and recycling)

Relations on the circulation of waste may be a subject to different contractual constructions. The contract may contain the following actions with waste: transportation service, storage, burial, neutralization and recycling. Contracts may contain both single acts against waste as well as sequence of actions from the producer of waste to the entity, which dumps it. Transportation, neutralization and dumping of waste are successive elements in the technological chain of waste disposition services.

The FAS Russia has analyzed the following markets of waste collection services:

- Transportation of solid household waste (hereinafter – SHW) (competitive services);
- Disposition of SHW (non-competitive services: tariff regulation of household entities providing the deposition of SHW).

Competition is not developed in the market of disposition of SHW. It is underdeveloped in the market of SHW transportation, however in several regions of the Russian Federation the market is moderately concentrated, and sometimes even low concentrated.

The specificity of conditions for the participants of the market of waste disposition:

- Existence of an economically viable minimal volume of production, determining higher expenses for a unit of production until reaching such volume of production;
- Tariff regulation of entities being part of the household system, which provide the burial of solid household waste, leads to an economic disadvantage from the upkeep of numerous ranges to dispose small volumes of SHW.

Thus, there cannot be many participants on the market due to economic reasons. The facts explain the lack of competition on the market of waste collection.

The fact that economic entities, operating on the market of SHW disposition, occupy dominant position, allows such entities to create non-equal conditions for participants of market of waste transportation while contracting about transfer of SHW to landfills.

The strategy of the major vertically integrated companies creates discriminatory conditions for entrance to the market of SHW transportation.

More than a half of economic entities, operating on the market of SHW disposition in cities with population more then 100 000 citizens, also provide services on its transportation. 20% of entities providing both disposition and transportation services, have a market share of more than 35%.

Entrance to the market of new entities complicates with the existing of long-term agreements between economic entities operating on the market of SHW transportation and companies providing SHW landfilling.