



Slovenia was until 1990 a constituent part of former federal Yugoslavia. It became independent in 1991, with a democratic political system and market-based economic system. In the mid 1990s, it started negotiations for accession to the EU and became member of the same on May 01, 2004.

### Economy

Slovenia, with its historical ties to Western Europe, enjoys a GDP per capita substantially higher than that of the other transition economies of Central Europe. In March 2004, Slovenia became the first transition country to graduate from borrower status to donor partner at the World Bank.

Privatisation of the economy proceeded at an accelerated pace in 2002-04. Despite lacklustre performance in Europe in 2001-04, Slovenia maintained moderate growth. Structural reforms to improve the business environment have allowed for greater foreign participation in Slovenia's economy and have helped to lower unemployment.

Further measures to curb inflation are still needed. Corruption and the high degree of coordination between government, business, and the central bank were issues of concern in the run-up to Slovenia's May 01, 2004 accession to the EU. In mid-2004 Slovenia agreed to adopt the euro by 2007 and, therefore, must keep its debt levels, budget deficits, interest rates, and inflation levels within the EU's Maastricht criteria.

### Competition Evolution and Environment

Slovenia inherited a legacy of economic structure and political philosophy of socialism (communism) that was the dominant political and economic orientation of the country for almost 50 years (from 1945 to 1990). As a result, its economy was characterised by large-scale manufacturing and agricultural undertakings that were promoted on the assumption that industrial concentration would be conducive to economic efficiency and lower

PROFILE	
Population:	2 million***
GDP (Current US\$):	27.7 billion***
Per Capita Income: (Current US\$)	11,920 (Atlas method)*** 18,540 (at PPP)**
Surface Area:	20,250 sq. km
Life Expectancy:	76.2 years**
Literacy (%):	99.7 (of ages 15 and above)**
HDI Rank:	27***
Sources:	
- World Development Indicators Database, World Bank, 2004	
- Human Development Report Statistics, UNDP, 2004	
(**) For the year 2002	
(***) For the year 2003	

costs. This should, in principle, improve the competitiveness of the economy and benefit the consumers.

In practice, however, SoEs were largely inefficient and not competitive in international markets. The social experimentation with economic self-management and political decentralisation, during 1960 and 1970, temporarily improved the economic performance, but was soon aborted because of nationalistic antagonism and the deteriorating financial and economic situation. As a result of economic and political tensions, Yugoslavia disintegrated in 1990.

Independent Slovenia was initially confronted with the problem of transition from state owned enterprises and administratively planned economy to a market-based economy during which it had to dismantle its concentrated industrial structure through liberalisation and competition, while simultaneously maintaining a minimum level of social protection of those groups that were hit by the restructuring. As a result, competition was introduced only

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gradually, and consumers' concerns were subordinated to the interests of industrial groups. These developments proved to be a fertile ground for the proliferation of special interests that defended their positions by invoking national interest as a convenient excuse for prevention of international and even domestic competition.

The beginning of accession negotiations with the EU presented itself as the opportunity, as well as the obligation, to introduce competition and competition monitoring in the economic system.

### Competition Law and Policy

*The Prevention of the Restriction of Competition Act* was adopted in June 1999 and was fully aligned with procedural legislation of the EU. The Act regulates three classical areas of competition: i) restrictive agreements, ii) abuse of dominant position, and iii) concentrations. Together with supporting by-laws, the legislative framework seems formally well aligned with the EU *acquis*<sup>1</sup>. The law provided for the establishment of the Competition Protection Office (ComPO) that is in charge of enforcing the legislation.

After several years the general level of awareness of competition problems is still low and suffers from insufficient political support. Competition policy is not yet understood as a subset of consumer protection policy but rather as a policy of protection of job providers and producers from competition of 'unfriendly' external competitors.

ComPO has been active in several areas of competition, and has dealt with some highly publicised cases. However, due to insufficient human and financial resources, it is still far from an efficient enforcement agency. Its lack of enforcement essentially stems from two problem areas:

- insufficient cooperation of sector specific regulators with ComPO; and
- absence of an effective and efficient enforcement system for anticompetitive behaviour.

### Sectoral Regulation

Legislative liberalisation of markets for services of general interest, like energy, telecommunications and transportation that was introduced during the negotiations for EU membership, has not been pursued with sufficient vigour by sectoral regulators and in some cases has been captured by special interest groups dominating these sectors. As a result, markets are still far from being competitive.

#### Power Sector

The aforementioned reality is demonstrated in the power sector. In power generation and distribution, for example, notionally independent producers have formed the cartel

(HSE-Holding Slovenske elektrarne), which jointly determines prices charged to distributors. Distributors, in their turn, have divided the market into regional markets with no competition. The state not only tolerates this behaviour but also is actively involved in the majority ownership interest in the cartel.

When the sectoral regulator for power (*Agencija za energetiko*) tried to independently set the prices of electricity for the next regulatory period, its director was replaced by the Government with the justification that the Agency has not shown sufficient cooperation to achieve macro-economic goals.

#### Telecommunications Sector

The situation is similar in telecommunications. In spite of formal liberalisation of entry there is only one provider of fixed telephony services (Telekom Slovenije), that is still predominantly state owned and highly profitable. In mobile telephone services the company Mobitel, the subsidiary owned by the fixed telephony monopolist, dominates the market. Mobitel's market share exceeds 72 percent. Practically all mobile telephone services with public sector institutions (ministries, agencies, public enterprises, etc) are contracted with Mobitel.

#### Box 94.1: Restricted Entry and Predatory Pricing of Internet Service Provider

SIOL the dominant internet service provider controls about 45 percent of the market. The provider is 100 percent owned by Telekom, and enjoys preferential interconnection tariffs. To prevent entry of competitors, Telekom requests unreasonably high interconnection charges and insists on hard-to-comply-with technical requirements.

SIOL, on the other hand, provides broadband internet access only if customers purchase equipment with specific technical standard (ISDN) that is, in principle, not needed for users. During 2004 SIOL started to offer internet connections for first-time users at prices that are far below the costs.

The agency for telecommunications, radio and post (ATRP) seems to be unwilling to mandate more competition that would put pressure on the incumbent and the enterprises it controls.

#### Anticompetitive Business Practices

Prevention of competition through restrictive practices and abuse of market position is not limited to national markets, and can be found in many local markets, where local authorities protect local providers, or at least condone their behaviour.

<sup>1</sup> The French term *acquis* is used in EU law to refer to the total body of EU law accumulated so far.

### Box 94.2: Cartelisation of Local Utilities

Many local utilities services are still closed to competition with the result that consumers have no choice and must pay prices that are normally considerably above costs. Two of the most exorbitant abuses of monopoly position are services for chimney inspection (and cleaning), and funeral services.

Chimney inspection has been declared a service of public interest, and the legislation obliges each homeowner to purchase an annual chimney inspection of his house. There is a single monopoly provider of this service in a local community – usually a public enterprise that sets prices that bear no relationship to the time spent for inspection. The choice of another provider is not allowed and the refusal of inspection is penalised, even if there is no need for inspection (e.g. no use of chimneys, use of clean fuels, like gas, etc).

The local monopolist, usually a public enterprise, can only provide funeral services which charges prices that are extremely high and impossible to relate to actual costs. Private funeral services are not allowed in the majority of local communities. As a result there are ‘bottlenecks’, particularly in bigger localities, and a ‘queuing’ for the date of actual burial (sometimes as long as one week) that is emotionally draining for the survivors of the deceased.

There are many abuses of price fixing and restriction of entry in areas of some highly sensitive independent professional services. These services are mostly regulated by professional associations, which as a rule defend professionals against complaints of consumers.

Low level of cooperation of regulatory bodies with CompPO seems to be partly the result of political support to state ownership in some major non-competitive enterprises. Besides energy, transportation and telecommunications, the state still has a major share and influence in the capital of the biggest banks, insurance companies, local utilities, and housing finance funds. This is considered to be useful for ‘better micro and macro management’ of the economy. Needless to say that in such ownership arrangements and institutional set-up the concerns of consumers are usually paid only lip service.

The absence of an efficient penalising system is a major impediment to the efficacious functioning of ComPo. The departures from competitive behaviour and abuses of dominant positions are generally treated as minor offences and are sanctioned with symbolic fines. Transgressors actually find it profitable to continue with anticompetitive behaviour, which brings them much higher rewards than competitive market, which would benefit consumers. Situation might be improved with stricter penalising system but the main change is possible only after consumer

oriented competition policy would be adopted by the regulators.

### Consumer Protection

Consumer Protection Act does not include any rules on competition. The Consumer Protection Office (CPO) was set up within the Ministry of the Economy in 1996. It is structured in the same way as CompPO but its activities even in consumer protection are minimal. CPO does not deal with competition policy at all. CPO lack resources, financial and human, mainly due to poor understanding of consumer policy and consumer protection within the Government.

The ZPS, Slovene Consumers’ Association, has been active in several highly publicised cases of consumer protection, viz. usurious lending practices by financial intermediaries, banking charges, housing, medical malpractices and so on. The people are gradually becoming aware of consumer rights, although the momentum is still insufficient.

### Concluding Observations and Future Scenario

There has been a growing awareness in the EU that consumer rights need to be better integrated into the competition issues. Insufficient competition results in clear consumer detriment. This detriment has to be assessed with the appropriate methodology and explained to consumers.

### Box 94.3: Price Fixing of Services of Notaries Public

The Ministry of Justice accredits notaries public and the number of licenses is limited to 68 for the whole country (one notary public for 30.000 inhabitants). This restriction is officially justified by the argument of quality of service.

Besides restrictions on entry, notaries’ fees are fixed by their professional association (Chamber of notaries public), and are unrelated to the time spent on the case (e.g. certifications of a contract, deed document, etc). Rather, the fees are related to the value of the transaction that is being contracted in the document.

There have been several highly publicised cases of abuse of notaries’ services. On several occasions their ‘service’ consisted only of the certification of the signature on the document and the collection of fees. The Chamber is firmly against the liberalisation of entry, and also refuses to provide data on the earnings of notaries public. Recent information about personal income tax declarations for 2003 showed that 22 notaries public were among the highest 100 income earners.

The above constitutes one of the more scandalous instances of restricted entry and cartelised fixing of prices, with reference to a particular profession, in this case that of the notaries Public.

#### Box 94.4: Restrictions in Liberal Professions

In Slovenia there are restrictions of entry into pharmaceutical retail business, and exclusivity in the preparation of documentation for building permits.

Entry into pharmaceutical retail trade is regulated with licenses granted by the Slovene Chamber of Pharmacy. In the whole country there are 24 public sector pharmacies (*Javni zavodi*) with several retail outlets and 68 private pharmacies (single outlet). In addition there are 26 pharmacies connected to hospitals, and in general not accessible to public.

The ratio population/outlet (estimated at about 16,000 population/outlet) shows undersupply of this service, but the Chamber is very restrictive in granting new private licenses. It usually insists not only on professional qualifications but also on marginal technical requirements (e.g. size of shops, etc) and on economic justification!

Data on market shares by sector of ownership are not available. It is, however, estimated that the public

sector share is much bigger than the share of private pharmacies. This is often justified on the ground that drug provision (sale) is declared a service of public interest. Salaries and profits of pharmacies are reported to be very high and are defended with arguments that this work is very responsible and requires the highest qualifications. It comes as no surprise that private pharmacies have aligned their margins with those of public pharmacies, which are considered to be overstaffed.

No individual consumer who intends to construct his house is in a position to prepare the necessary documents for building permit by his own efforts. The administrative procedures to collect and prepare a host of permits and documents are very bureaucratic, non-transparent and time consuming (often up to two years or more). The documents are, therefore, prepared by professionals (architects and building engineers) with connections to local authorities, at considerable costs to consumers.

Slovenia, as a EU member state, fully agrees with such approach, and will participate in relevant EU bodies (e.g. European consumers consultative group – ECCG) to promote the integration of competition policies and consumer protection.

The new Government that came into office in December 2004, has signalled its intention to better promote consumer issues, first by allocating more budgetary funds for this purpose, and, second by supporting more competition in provision of goods and services. At this stage, it is still

early to assess the effects of new policies. In the legislative area further changes will also be needed: non-governmental bodies will have to be given competition enforcement powers, particularly in ‘small’ cases that often escape the attention of competition authorities.

Non-governmental bodies, like ZPS, will try to strengthen international cooperation to bring in the best practices of other countries that have demonstrated it usefulness, both in the area of consumer protection and competition policy.

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