

Speech by Deputy High Representative Patrice Dreiski at a Conference on Regulatory Governance and Network Industries

Chairman of the Council of Ministers Mikerevic

Distinguished Ministers

Mr Heimler, Mr Alter

Ladies and Gentlemen

It is my very great pleasure to welcome you here today. The calibre and seniority of the participants at this conference attest to the important recognition among decision-makers in Bosnia and Herzegovina that efficient regulation is a central component of a prosperous market economy. I would like to begin by expressing our sincere thanks to the Swiss Development Agency, which has funded today's conference and thus launched what I hope will be a continuing and fruitful dialogue among international and domestic agencies on this key topic of regulation. I would also like to thank the OECD, which has jointly organised the conference with OHR, and I would like to express particular thanks to my OHR colleague Richard Westler, who has managed the preparations for the conference superbly.

This morning, the conference will examine the relationship between policymakers and regulators – why it is essential that regulatory bodies should be free of political interference, and how that freedom can be secured through institutional techniques applied successfully elsewhere in the world.

This afternoon's session will look at the ways in which effective regulation safeguards and routinely enhances the benefits of economic liberalisation. As the conference title suggests, we will be looking at network industries – transport, telecommunications, power distribution – but the principles of effective regulation apply to many other sectors too, from banking to supermarket retailing, which means that this conference has relevance to the BiH economy as a whole.

Efficient and independent regulatory bodies are not a luxury; they are not something that countries can afford to enjoy only when their economies begin to prosper. They are necessities that make economies prosper in the first place. Regulation helps make markets work, by ensuring that natural monopolies deliver optimum prices and services to consumers and by ensuring that in strategic sectors such as utilities, a level playing field is established so as to allow companies to operate in fair competition.

The communist legacy has left BiH with an interventionist business culture in which regulation of the economy has traditionally been viewed as a means of *control*. The model of revenue-generating political control cannot be transferred to the market economy. Attempts to transfer this model from the old system to the emerging market in BiH are discouraging the entrepreneurial dynamism that is needed to create jobs and improve people's livelihoods.

Monopolies that are not properly regulated – or that are regulated according to the old-fashioned model of political control – may offer governments a short-term source of income but over the long term they alienate consumers and produce diminishing returns. By creating a level playing field and encouraging competition, regulation ensures investment in infrastructure and research, for example, and encourages companies to develop innovative products and deliver them to the consumer efficiently and economically. Over the long term this benefits everyone – consumers, governments and the companies themselves.

Regulators do not simply tell state monopolies what prices to charge. If that were all they did, their impact would be insignificant. They are part of a broader economic transformation that includes privatisation. Regulators ensure that a market economy serves the interests of all citizens. They should be seen not as a function of control but as a function of change. The Communications Regulatory Agency, for example, the Banking Regulatory Agency and the Department of Civil Aviation are an integral and indispensable part of the transformation of the BiH economy.

There may be some weariness here in BiH with the whole concept of economic reform. It often seems as though outsiders – the European Union, the World Bank, the IMF, the OHR – are trying to make the BiH economy go through hoops. It is a sensible approach to lay out conditions of a market economy which must be met as BiH integrates with the European and global economies, but these conditions should be properly explained. In the case

of regulation it is important that everyone understands the *benefits* which independent regulatory authorities can provide. Efficient regulation isn't a nuisance, it's an advantage – it guarantees the safety of food and drugs; it guarantees that doctors and school directors and airline pilots are properly certified and follow professional codes of conduct. Regulation reaches those parts of the service economy that ordinary competition may not reach. It is the regulator who obliges bus companies, for example, to serve isolated communities, or to maintain services during unprofitable off-peak times. It is also the regulator who in the case of BiH shuts down radio and broadcasting stations that spread nationalist extremism.

Accession to the European Union calls for certain institutional benchmarks including effective regulation. To conclude a Stabilisation and Association Agreement with the EU, BiH will have to put in place efficient regulatory regimes. As with all the other EU Road Map issues, it isn't just a question of meeting accession requirements for the sake of meeting them; it is a question of implementing policies that bring BiH closer to Europe and at the same time deliver benefits to citizens. For example, a properly regulated transport sector will make it easier for BiH haulage companies to operate lines from this country directly into the European market. This will benefit exporters, which will in turn benefit the economy as a whole.

Governments throughout the world – and not just governments in countries making the transition to a free market – face the need to reinvent themselves. Increased borrowing is no longer an acceptable response to excessive debt – increased efficiency is. The solution, applied to a greater or lesser extent by all the developed economies over the last twenty years, has been for governments to withdraw from direct management in the public sector, privatise socially-owned companies, and create regulatory conditions in which firms can deliver goods more efficiently and profitably than their nationalised predecessors could.

The experience of the OECD countries offers one incontrovertible message: privatisation, especially where monopolies and public services are concerned, doesn't work unless the operating environment of privatised companies is properly regulated. An independent regulator doesn't spoil the fun; it certainly doesn't reduce a company's capacity to be efficient and profitable. What it does do is ensure that the strengths of the market – competitive prices and services – are maintained for the benefit of the public as a whole.

In order to function effectively, the regulatory authority must have a clear mandate and the necessary level of discretion and it must be free of political interference. Policymaking and regulation are properly interlinked. As governments withdraw from direct management of large sectors of the economy, they do not withdraw from responsibility for overall strategy. The job of policymakers is to set policy and they must do this for the market regulators. After that, they must let the regulators regulate. This is often misunderstood. The regulator is not a bull in the administrative china shop. The regulator is accountable to consumers, to the taxpayer and to the government. This accountability must be clearly laid out in the regulator's mandate. With a clear mandate and clearly defined parameters of discretion, the regulator can maintain its independence and authority and at the same time respond efficiently to policy guidelines.

Techniques and institutional structures that will be discussed here today examine ways in which the balance between independence and accountability has been developed and maintained in other parts of the world.

Effective market regulation is a prerequisite for attracting foreign investment. Investors will not risk money in markets where regulations are elastic, or where different rules apply to different players.

BiH needs foreign investment and it needs a free market that allows the competitive delivery of products and services at the lowest price. This will bring untold benefits to citizens – it will make BiH a place where young people want to live not a place from which they want to emigrate.

I will say it again: Efficient and independent regulatory bodies are not a luxury that countries can afford only when their economies begin to prosper. They are necessities that make economies prosper in the first place. Today's conference will examine the ways in which the regulatory environment can be established and used as a tool to deliver prosperity to all.

Thank you very much