

Payment of pensions by the "Bulgarian posts" PLC - monopoly or obligation?

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This paper examines the payment of pensions in terms of the monopoly extent, rates of liberalization, competition and EU legislation in the field of services of general economic interest. The necessity of the obligation to pay pensions has been justified. An analysis of conditions and terms of providing the service have been made. Formulas for calculating the net cost of the postal operator have been provided and looked over. The characteristics of "pure monopoly" with those of obligated service pensions have been examined and compared to each other. A conclusion has been made regarding the nature of the service offset, the net costs and an answer to the title of the report.

Изплащането на пенсиите от "Български пощи" ЕАД – монопол или задължение? (Здравко Михайлов, Валентин Ценов). Изследвано е изплащането на пенсии от гледна точка на монополно положение, степен на либерализация, конкуренция и законодателството на ЕС областта на услугите от общ икономически интерес. Обоснована е необходимостта от задължение за изплащане на пенсии. Направен е анализ на условията и режима на предоставяне на услугата. Посочени са формули за изчисляване на нетните разходи на пощенския оператор. Съпоставени са характеристиките на "чист монопол" с тези на задължен доставчик на пенсии. Направено е заключение за характера на услугата, компенсиране на нетните разходи и отговор на заглавието на доклада.

Topicality of the problem

There are many stakeholders with different points of view regarding the services for payment of pensions carried out by the "Bulgarian Posts". These points of view are related to the monopoly position, to which extent the service is liberalized, distortion of competition, EU legislation in the field of the services of general economic interest. The Supreme administrative court issued a court order, which states that the Court of justice of the European Union should decide on the distortion of competition. The latter did not decide in favor of the alternative providers and returned the dossier to the Bulgarian justice in order to prescribe whether the activities related to the payment of pensions are social or rather economical. On this depends whether there is a state aid and support of the state postal operator.

On 1st of July 2016 the Council of Ministers of the Republic of Bulgaria adopted Decree amending the Ordinance for payment of pensions and security for work experience (the Ordinance). According to the Ordinance the net costs of the state postal operator have to be calculated as a difference between the net

costs of the provider when operating *with obligation* to pay pensions and the net costs of the same provider when operating without obligation to pay pensions [1].

On 6th of July the "Capital" newspaper published the article: "Bulgarian Posts reserves its monopoly over pensions for 10 years" [2].

Such unambiguous position in established economic magazine gives grounds to seek an answer to the question: "Is the payment of pensions a monopoly of the "Bulgarian Posts" or is it its obligation?"

Object, subject and purpose of the report

Object of the report is "Bulgarian Posts".

Subject of the report is the provisioning of the service "payment of pensions".

Purpose of the report is an attempt to prove that the payment of pensions is not a monopoly of the state postal operator and it is its obligation.

Limited conditions of the report:

- Payment of pensions by private pension funds is not a subject of this report;
- For the analysis purposes the characteristics of the so called "pure monopoly" are used".

Tasks:

- Genesis, definition and characteristics of the market structure “monopoly”;
- Justification of the necessity to have an obligation for provisioning of public service;
- Analysis of the conditions for provisioning of the service “payment of pensions”;
- Identification of the main components of the obligation for the provisioning of the service “payment of pensions”;
- Comparing the characteristics of a monopoly company (pure monopoly) with the characteristics of the “Bulgarian Posts” – obliged provider of pensions.

1. Genesis, definition and characteristics of the market structure “monopoly”.

Reasons for arising of a monopoly.

The first reason is the granting by the state of an exclusive right for selling of good(s) or service(s).

The second reason is related to the *economy of scale (natural monopoly)*. It is observed when the curve of the costs is such that a company which is big enough to produce the whole production of the branch, will be able to do this under lower costs compared to several smaller companies. [3].

The third reason is imposing of excises by the state on goods regarded as luxury or on products related to the so called “fiscal privileges” for the state, known also as *fiscal monopoly* [4].

The fourth reason is the *specialized nature* of the product (for instance single pharmacy in small populated place, author of novels with specific thematic).

The fifth reason is related to the consumption of *public benefits* (for instance consumption of the service “national security”, consumption of the navigation service “lighthouse” etc.).

The sixth reason for arising of the monopoly is putting the legal barriers for entering some market, like *author rights, patents, and licenses*.

Definition of the market structure “monopoly”.

The etymology of the work “monopoly” is of Greek origin and means “*selling alone*”(selling of goods and services and their substitutes).

There are various definitions of the market structure “monopoly” in the scientific literature. David Friedman defines the monopoly as a company, which is the sole seller of several specific goods or services in a certain branch [5].

According to the “business dictionary” the monopoly is a market situation where one producer (or group of producers acting in coordination) exercises a con-

trol over the delivery of a good or service and where the inclusion of new producers is prevented or severely limited. Trying to maximize their profits the monopolists keep high prices, limit the production and do not respond adequately to the customers’ needs” [6].

2. Justification of the necessity to have an obligation for payment of pensions

There is rapid and common liberalization of the infrastructure sectors providing services of general interest in the EU countries. The regulation of the markets in these sectors is not possible at all time to respond adequately to the public needs. It is possible the market price to be too high for a certain group of customers with low purchasing power or not to cover the costs for provisioning of the services. This fact requires the imposing of obligations for provisioning of public services and thus to guarantee not only the right of every citizen (regardless of his social status and geographical location) to access the minimum package of services with certain quality and at affordable price, but also provisioning of subcontracted services like payment of pensions by the “Bulgarian Posts”.

The obligations represent a financial burden for the operator. This financial burden is identified with those components and elements of the service, which the operator would not offer if it was guided solely by commercial considerations. Usually this is related to the *provisioning of the services for customers and in geographical areas, which are financially not profitable for the operator*.

Payment of pensions by the “Bulgarian Posts” – service of a general economic interest

The Ordinance specifies the payment of pensions by the “Bulgarian Posts” as a *service of a general economic interest*.

According to the EU legislation, services of a general economic interest are economical activities of benefit for whole community. Without public intervention these services would not be provided on the market or would be provided under different conditions regarding the quality, safety, accessibility, equal treatment or universal access. [7].

3. Analysis of the conditions for the provisioning of the service “payment of pensions”

According to the legislation, the payment of pensions is provided under the following conditions:

- The service is provided on the basis of a secondary legislation act (Ordinance for payment of pensions and security for work experience), adopted by the Council of Ministers’ Decree;

- The service is provided by the “Bulgarian Posts”, banks and payment institutions in the country;
- The state granted rights for the provisioning of the service to the banks and the other payment institutions;
- ”Bulgarian Posts” is an operator with *obligation* to provide the service.

The obligation for public service is *imposed* on the provider based on a criteria for common interest and thus to guarantee that the service is provided under conditions allowing the provider to fulfill its tasks. The imposed obligation comprises components, which generate net costs for the “Bulgarian Posts”.

4. Identification of the main components of the obligation for the provisioning of the service” payment of pensions”

The current legislative basis gives an opportunity to identify the following *main components* of the obligation for the provisioning of the service ”payment of pensions”:

- Payment of pensions on the territory of the whole country by the post offices of the “Bulgarian Posts”;
- Payment of disability pensions by the “Bulgarian Posts” at the premises of the addressee (permanent or current address), if he/she receives a pension for permanent disability/type and degree of disability or he/she is 68-years old;
- Payment of pensions by the ”Bulgarian Posts” from 7th to 20th date of each month;
- Pensioners are released from payment of the price of service;
- Provision of the service by the ”Bulgarian Posts” for 10 years as from 1st of July 2016.

Formulas for calculation of the net costs of the “Bulgarian Posts”

- The net costs of the ”Bulgarian Posts” (generated from the components of the obligation for payment of pensions) are calculated based on the following formula [1]:

$$NC = (R_{\text{with obl}} - C_{\text{with obl}}) - (R_{\text{without obl}} - C_{\text{without obl}}),$$

where:

- NC is the amount of the net costs of the ”Bulgarian Posts” for the relevant year in leva (BGN);
- $R_{\text{with obl}}$ are the revenues of the ”Bulgarian Posts” in leva (BGN) when operating *with obligation* for payment of pensions, calculated based actual consumer prices;

- $C_{\text{with obl}}$ are the costs of the ”Bulgarian Posts” when operating *with obligation* for payment of pensions in leva (BGN), calculated based on reported and allocated costs from the accounting system of the company for cost allocation in activities and services;
- $R_{\text{without obl}}$ are the revenues of the ”Bulgarian Posts” in leva (BGN) when operating *without obligation* for payment of pensions, calculated by the “Bulgarian Posts” in leva (BGN) based on prices, defined in the *counterfactual scenario*;
- $C_{\text{without obl}}$ are the costs of the ”Bulgarian Posts” in leva (BGN) when operating *without obligation* for payment of pensions, calculated by the “Bulgarian Posts” based on costs, defined in the *counterfactual scenario*.

The amount of the compensation for the ”Bulgarian Posts” is calculated according to the following formula:

$$C_{\text{pensions payment}} = NC_{\text{pensions payment}},$$

where:

- $C_{\text{pensions payment}}$ is the amount of the compensation in leva (BGN) for the relevant year;
- $NC_{\text{pensions payment}}$ is the amount of the net costs in leva (BGN) for the relevant year.

Purpose and structure of the counterfactual scenario for the payment of pensions

According to the formula, it is necessary to develop a *counterfactual scenario* for the “Bulgarian Posts” when operating *without obligation* to provide the service. The purpose of the scenario is to calculate the net costs of the state postal operator when operating under commercial conditions, which are relevant to a sufficient extent to an *effective counterfactual operator*. When developing the scenario, the following situations could be taken into account:

- Reducing the number of the post offices of the operator, providing the service;
- Change the frequency of the provisioning of the service (within the day and within the week);
- Change the ownership of the postal network of the service provider [8];
- Limitation of the whole national or regional coverage regarding the provisioning of the service [same point];
- Definition of the price of the service ”payment of pensions” by the provider when operating without obligation for payment of pensions.

”Bulgarian Posts” could develop the counterfactual scenario when taking into account:

- ✓ Only one of the described situations;
- ✓ Several of the described situations taken together;
- ✓ All situations taken together.

The state postal operator should prove that the counterfactual situation for the provisioning of payment of pensions is feasible and reliable. This could be achieved by systematical evaluation from the commercial point of view of the postal market in the country or by attaching the counterfactual scenario to the current business strategy of the obliged provider. [8].

Criteria for unfair financial burden of the net costs
When the difference between the net costs of the

”Bulgarian Posts” operating with obligation to provide pensions and the net costs of the state postal operator without obligation to provide pensions is *negative number*, then the net costs of the obliged provider represent an unfair burden and are subject to compensation [1].

5. Comparing the characteristics of a monopoly company (“pure monopoly”) with the characteristics of the “Bulgarian Posts” – obliged provider of pensions

Based on the mentioned above, in the table 1 below are compared the characteristics of a monopoly company with the characteristics of the “Bulgarian Posts” – obliged provider of pensions.

Table 1

| CHARACTERISTICS OF A MONOPOLY COMPANY | CHARACTERISTICS OF “BULGARIAN POSTS”, OBLIGED PROVIDER OF PENSIONS |
|--|---|
| Company with <i>exclusive rights</i> to deliver good(s) or service(s) and their substitutes in given branch (sector) | Company with <i>imposed obligation</i> by the state for provisioning of the service “payment of pensions” |
| The company is the sole provider of good(s) and service(s) in given branch (sector) | The service ”payment of pensions” is provided also by banks and payment institutions |
| The company defines the quantity of the good (or goods) and the service (or services) and their substitutes without considering the needs of the consumers | The quantity of the pensions paid is defined by the needs of the final consumers and the quantity of the pensions paid by the banks |
| The company defines a <i>monopoly price</i> of the provided goods and services and their substitutes | ”Bulgarian Posts” <i>doesn’t have right</i> to define the price of the service ”payment of pensions” |
| The company realizes a <i>monopoly profit</i> | ”Bulgarian Posts” <i>doesn’t realize profit</i> from the provisioning of the service. The final consumer is released by payment of the service. |
| The company prevents the competitive companies to enter the market | ”Bulgarian Posts” is not able to prevent the competitive companies to enter the market in the sector ”payment of pensions” |
| The company does not allow access to information | ”Bulgarian Posts” is a public enterprise and as a such it has an obligation to provide information |
| The company establishes unrequited market power | ”Bulgarian Posts” does not establish unrequited market power |
| The costs of the company are not compensated by public funds | The state compensates the net costs of the ”Bulgarian Posts” |

Conclusion

This survey gives grounds for the following main conclusions:

- Payment of pensions by the "Bulgarian Posts" is a service of a general economic interest;
- The public service "payment of pensions" is imposed obligation on the "Bulgarian Posts";
- The imposed obligation does not generate profit, typical for monopolistic market structures;
- Payment of pensions cannot be considered as a service provided under market criteria;
- The components of the imposed obligation generate net costs for the state postal operator which are verified by an independent auditor;
- The net costs (representing unfair financial burden) should be compensated by the subject which imposed the obligation for payment of pensions and are paid by National Insurance Institute by means laid down in the law for the budget of the state social insurance;
- "Bulgarian Posts" is not a monopolist, because the service "payment of pensions" is provided also by banks (more than 50% from the pensions in the country are paid by the banks);
- The assertion of the "Capital" newsletter is not in line with the legislative basis and with the practice for the provisioning of the service "payment of pensions".

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