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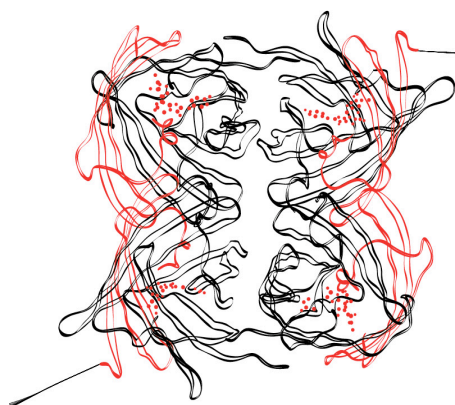
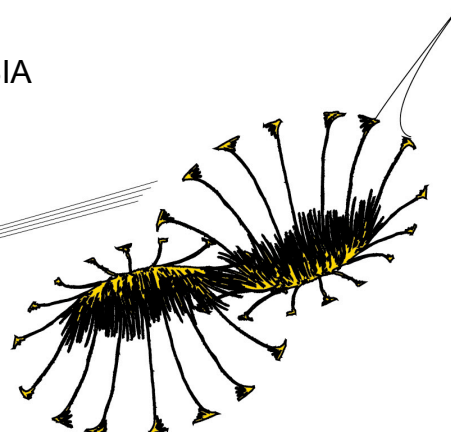
THE EUROPEAN INTEGRATION OF
NETWORK BASED SERVICES IN SERBIA

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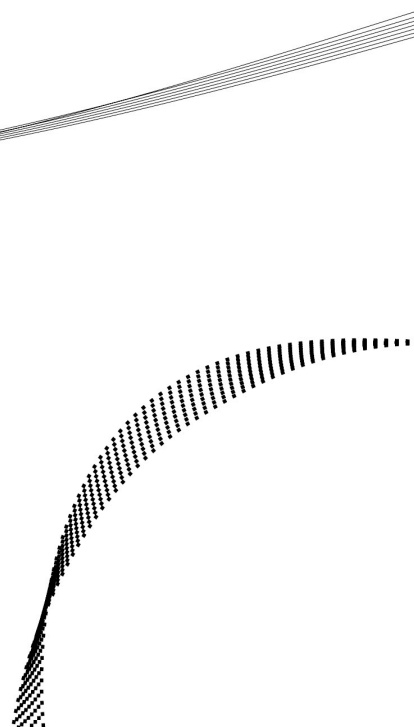


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Acronyms List

CEECs - Central and Eastern European Countries

EC – European Commission

EU – European Union

FDI – Foreign Direct Investment

ICT - information and communication technology

ICTY - International Criminal Tribunal for the former Yugoslavia

NBS – Network Based Services

NGO - Non-governmental Organization

OECD - Organization for Economic Co-operation and Development

RATEL - Republic Agency for Electronic Communications

RES - Renewable Energy Source

SAA - Stabilization Association Agreement

USO – Universal Service Obligation

USP – Universal Service Provider

Introduction

Overview

This thesis will deal with the European Integration of Serbia. The following quote from 2010 presents a main reason why Serbia should stay on its way to the European Union (EU) and therefore has to keep reforming the economy towards European Economic Integration;

“The EU commissioner also stated that the organization's enlargement to include the Western Balkans is in the interest of the EU since it strengthens peace and stability in all of Europe”

In examining economic developments in Serbia, the Commission's approach is guided by the conclusions of the European Council in Copenhagen in June 1993, which stated that membership in the Union requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union. Positively for Serbia is that enlargement of the EU is still high on the agenda. An illustration of this can be observed in the recently launched new enlargement strategy from the European Commission in 2010. In this strategy the EC states that enlargement is in the strategic interest of the EU and will help the EU to better realize its policy objectives in various fields.

Nevertheless, enlargement became in the current European political climate a more sensitive subject for politicians because of a disapproval of citizens towards the EU. This disapproval was illustrated with a specific turning point at the referendums in France and The Netherlands on the EU Constitution (Brown 2007). This led to a somewhat more conservative enlargement strategy of the EU.

Chapter 2.1 will describe why the integration of Serbia is important for the Balkan region. After the first eastern enlargement round in 2004 and the accession of Romania and Bulgaria as EU Member States in 2008, the remaining Balkan countries have to follow in the upcoming years. It is this future enlargement that I want to analyze.

My Bachelor thesis analyzes the European economic integration part of Serbia and more specifically the integration of the network based services (NBS) in Serbia. From this analysis to recommendations are formulated for an effective implementation of the NBS. In order to give form to these recommendations, I used countries from the previous enlargements and their experiences in order to I will extract positive and negative points for Serbia.

Methodology

This section will outline the research method of this bachelor thesis. The description of the method includes the approach I used to come up with the chosen subject, the integration of Serbia into the EU, with a corresponding concept of European Economic Integration into the EU.

In order to analyze the concept of economic integration in this thesis, it has to be well defined, as the available time for the thesis is limited.

To define the concept a specific element will be chosen, with the corresponding variables, that is part of European Economic Integration and can be discussed in this thesis.

To collect the relevant data for this thesis I made use of desk research. This means in practice the data was gathered from existing literature. This literature represented a good mixture of data to get an accurate view on the subject, and to prevent bias. To achieve this mixture there was a range of data sources, for instance online articles, books and policy reports. The online articles were articles about the EU and European enlargement and in many cases articles that discuss the countries in Eastern Europe in more detail. The source of the articles varied from think tanks to non-governmental organizations and the public sector. The books were mainly books about European Economic Integration in general and a number of books about the enlargement of the EU, which meant that a lot of background theory and information was needed.

The policy documents of the European Commission were useful for the current progress of Serbia and recent documents relating to the enlargement in

Southeast Europe. Policy documents of international organizations, such as the Organization for Economic Co-operation and Development (OECD) and World Bank, were useful as well.

Research questions

The thesis consists of one main research question and three sub-questions. Logically, this main question is formulated in such a way that it can give a sufficient answer to the formulated problem in Chapter 1.2. As outlined in that sub-chapter Serbia needs improvement in European Economic Integration process to meet the laid down network-based services integration criteria. That is why I formulated the main question in such a way that an answer can be given with several specific conclusions and advices. Taking this argumentation into account, the following main question can be formulated:

What is the best way for Serbia to optimize the European integration of its Network Based Services?

Subsequently one can formulate the following sub-questions. Sub-question 1 gives an actual status and defines the subject more specifically. Sub-questions 2 and 3 discuss the Network Based Services (NBS) more specifically.

Sub-question 1: What is the current status of the integration of Serbia in the EU?

This question provides the necessary information to answer question two and three. This sub-question is being divided into three elements. The first element describes the history of the relations between Serbia and the EU in the last decade. This historical element is necessary to position other information in the thesis into context.

The second element provides a theoretical background of the NBS by using (Pelkmans, 2006) and the European integration process Serbia has to go through.

It does not mean Serbia will follow this theoretical process precisely, however it will provide insight in the European integration process of NBS. The last element depicts an overview of the current economic situation in Serbia.

Sub-question 2: What are NBS and what is the integration status thereof?

The first part of this question describes aspects of selected NBS and how they should ideally be integrated in the framework of the EU. The second part of this sub-question analyzes the current state of the selected NBS separately in Serbia and the progress they made in the European integration process with that specific network based service.

Sub-question 3: What are best practices in comparative countries?

This sub-question analyzes the implementation process in comparative countries, which also went through the enlargement process. By analyzing the process in these countries a distinction can be made between the measures, which worked out well, and the measures that did not or were poorly executed in practice. With the help of these best practices, an overview can be made of the positive and the negative aspects and convert them into lessons or recommendations for European Economic Integration.

Sub-question 4: Which recommendations can be formulated for successful NBS implementation in Serbia:

After answering the sub-questions above, recommendations are formulated concerning the implementation of European regulation about the integration of NBS in Serbia. These recommendations are applied separately to the relevant NBS.

Chapter 1: What is the current status of the integration of Serbia in the EU?

1.1 The history of Serbia and the EU

As mentioned in the sub-chapter before the relation between the EU and Serbia is a complex one. This relation is especially complicated because of the war of 1990-1995 and following that period the Milosevic¹-era including the Kosovo-war where many EU-countries assisted in the bombings on Serbia. However the EU took when Milosevic was not in power anymore the first steps towards Serbia. This was a logical step as Europe wanted to stabilize the region by integrating the several states into the EU. Besides that the situation with Kosovo and the complex relation with Serbia had to be stabilized as well. To draw a more detailed picture of the path of Serbia towards the European Union I will outline a timeline of the steps Serbia took and a rough schedule for the steps Serbia will take in the future.

After numerous orientating meetings and negotiations from around 2002 till 2005, Serbia officially started the Stabilisation and Association agreement negotiations with the European Union in October 2005. At that point Commissioner Oli Rehn stated in Belgrade:

"This agreement will deepen our relationship, and create a contractual bond. It is a crucial step forward on Serbia and Montenegro's way towards the European Union"

However in May 2006 the negotiations were brought to a halt when Serbia was, according to the EC, not fully cooperating with the International Criminal Tribunal for the former Yugoslavia The EU demanded from Serbia that they would extradite Mladic² and Karadzic before negotiations about the SAA could

¹ Slobodan Milošević was President of Serbia and Yugoslavia. He served as the President of Socialist Republic of Serbia and Republic of Serbia from 1989 until 1997 in three terms and as President of the Federal Republic of Yugoslavia from 1997 to 2000.

² Ratko Mladić is an accused war criminal and a former Bosnian Serb military leader.

continue. In 2009 Karadzic³ was arrested and extradited to The Hague and in May 2011 Mladic was arrested. Serbia now convinced the EC that they are complying sufficiently with the ICTY that led to the ratification of the SAA in December 2009.

In December 2009 Serbia filed its application for EU membership, together with a statement of president Tadic that the target date of Serbia for accession is 2014. In October 2010 the General Affairs council decided to forward Serbia's application to the EC, which means there is a continuation of the process started in December 2009. In November the EU handed over a EU questionnaire that had to be filled in by Serbia. Serbia handed in the filled in questionnaire at 31st of January, hoping the EU would soon decide that Serbia could be a candidate member-state. Meanwhile numerous EU member states ratified the SAA with Serbia. On May 26 2011 Serbia arrested Ratko Mladic and extradited him to the ICTY where he can stand trial. By fulfilling this condition Serbia is now planning to request full candidate status in December 2011. However the biggest obstacle on the way to Europe has not been taken and that is a workable solution regarding Kosovo.

1.2 Background NBS integration process

The accession procedure to become a EU member state is complex and consists of many processes in a variety of fields. These processes a country has to undertake are demanding for the government in these countries as they accompany reforms under strict supervision of the EU. As this thesis is about NBS the presented elements will have a relation with NBS therefore only the elements, which are relevant for the NBS, will be clearly amplified in the process description. That means that the legislative alignment with the *acquis* will be discussed and the economic services integration process as those two are applicable to the NBS.

The NBS are part of the “services market integration” which is very different

³ Radovan Karadžić co-founded the Serbian Democratic Party in Bosnia and Herzegovina and was the first President of Republika Srpska from 1992 to 1996. He is accused of war crimes committed against Bosnian Muslims and Bosnian Croats.

compared to the goods market. Within the internal market for services the NBS takes a special position, as economic integration has to be achieved through different means. Pelkmans (2010) summarizes six steps to achieve integration of the network industries including the policy measures and/or regulation that accompany these steps:

1. Nature of competition: regulation in the market and for the market is regulated by the EC and national government
2. Introducing competition: independent regulator and separate reserved and competitive business applicable EC basic regulation + EC competition policy
3. Protecting public service levels: Universal Service Obligation (USO) or public service both of which guarantee the quality. EC provides minimum rules and has to be laid down in national legislation
4. Non-distortive financing of USO/PSO: Targeted subsidies, a turnover USO fund based on turnover levies and access charges are part of the EC basic rules and have selected national options
5. Non-distortive access to network(s): non-price access and interconnection rules and access price rules are defined by EC principles and EC rules. National rules are necessary for supervision
6. Non-distortive cross-border trade: the removal of old frontier prices and non-price rules for example technical or capacity. Part of the EC free movement and transit rules

These policy issues and measures and regulation above are ideal steps towards an internal market for NBS.

One cannot state that certain steps are more important than other steps. The importance of the steps is dependent on the specific network service and the stage of integration.

1.3 Current situation in Serbia

This whole accession process in Serbia is well under way. As mentioned in 1.1 several problems can be seen in the political sphere and one could argue also in the geographical sphere. Less interest from outside is paid to the economic and

legislative side of the accession process. In this sub-chapter those sides will be discussed in relation with the progress Serbia achieved up till now and what the current situation is of the European integration.

The progress of Serbia will be described through the variables of the EU-progress reports as these variables give a trustworthy indication of the progress. The information summarized below is extracted from EC reports.

The first aspect of the progress report is the functioning of the internal market in Serbia. The whole internal market comprehends many sectors therefore a number of sectors have been left out. The second aspect is the progress made on important sectoral policies.

First a number of aspect from the internal market:

1. Free movement of goods:
the conclusion of the EU is that Serbia is moderately advanced on free movement of goods and the requirements of the SAA.
2. Free movement of persons, services and the rights of establishment:
the conclusion of the EU is that Serbia is moderately advanced towards meeting its SAA obligations in the areas of movement of persons, services, right of establishment and company law.
3. Free movement of capital:
the conclusion of the EU is that Serbia remains moderately advanced in the area of capital movement. The moderately advanced classification shows that there is space for improvements.

The sectoral policies can be divided in the following fields:

1. Energy: the conclusion of the EU is that Serbia is moderately advanced in terms of alignment with European standards in the Energy sector. However, progress remains uneven between energy sources.
2. Industrial policies and SME's: the conclusion of the EU in this sector is that overall Serbia's preparations in the area of industry and SME's are well advanced and fulfill the relevant SAA requirements. As all the

requirements are fulfilled further comments are not necessary.

3. Transport: the conclusion of the EU in this sector is that overall Serbia is relatively advanced in the area of transport and has progressed well in the implementation of the requirements of the SAA and the interim agreement.

In several other reports about Serbia additional economic points of interest came forward. A number of them are summarized below:

- To achieve the 4% target deficit for the 2011 budget, more financial discipline is necessary. The privatization of Telekom Serbia will possibly be needed to cover a part of the needs. This privatization is an element of the NBS integration process as well.
- Under pressure from trade unions the government has recalled the new pension-law, which includes many reforms. A new version, which includes fewer reforms, has been submitted in 2011.
- The improvement of transport and communication infrastructure and a better compliance with EU-regulation
- Improving the legislative framework regarding investment policy, public-private partnerships and trade policy
- Necessary reforms of the labour market to make Serbia more competitive

To put certain network developments and reforms in a context it is necessary to be aware of the corruption in Serbia. That corruption is a significant problem in Serbia can be observed on the basis of the corruption perception index where Serbia stands on number 78. This position is not desirable and not close to average EU level as well. The government has the intention to tackle corruption and keeps the fight against it high on its priorities list. Corruption is related with the accession process and integration of the NBS in terms of slow reform, incorrect information and financial fraud. Political/party influence over the new regulatory institutions has been expanded by corrupting their control mechanisms, their selection processes or simply by delaying their establishment. Concluding one can state that aspects in the administrative system are significantly under influence of politicians.

These relations and concrete problems are not discussed in detail in this thesis but below there are a couple of main corruption problems summarized:

- According to Transparency Serbia the majority of corruption complaints in Serbia concern public procurement issues
- Systematic state capture is a wide-spread phenomenon in Serbia and can be defined as *“any group or social strata, external to the state, that seizes decisive influence over state institutions and policies for its own interests and against the public good”*.
- There is a need in the future for further capacity building of the administration and decent supervision in order to combat corruption

This was the general description of the current situation in Serbia; with this information about the current status the context of the NBS integration process is clearer. The status of the NBS integration in Serbia will follow in chapter 3.

Chapter 2: What are NBS and what is the integration status thereof?

2.1 What are the NBS?

Network based services are part of the services sector in the internal market of the EU. Below is an overview of the position of the NBS within the services sector.

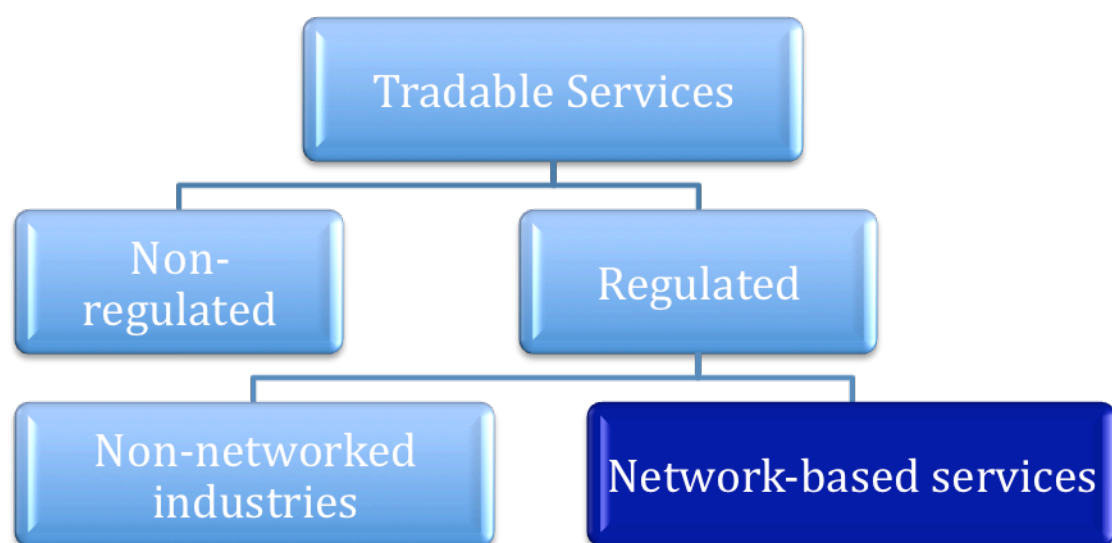


Figure 1: Overview services ((Pelkmans, 2006)

The NBS consist of separate services. I will outline these separate services below and lighten out sub-sectors. Without choosing sub-sectors the services are too broad to analyze in this thesis.

Postal Services:

According to the EC 'the postal services sector is of vital importance for commercial users and consumers alike and is considered as a service of general economic interest (SGEI)' (EC, 2011).

By propagating this statement the EC shows that the integration of postal services has a high priority with large ambitions, which are laid down in the Lisbon agenda.

This is not without reason as the postal market in Europe is worth 90 billion euro and 1,6 million people working in the sector (EC, 2008).

The EU wants to achieve a number of objectives but two important characteristics are outlined below:

- The first aim of the EU is to achieve an open postal market in the EU. The basis of this target is laid down in Directive 97/67/EC that consists of *common rules for the development of the internal market of Community postal services and the improvement of quality of service*.
- The member states have to determine how to guarantee a universal service in the country related to the postal services: the so-called Universal Service Obligation (USO).

Energy:

To integrate the energy networks the EC focuses on “trans-European energy networks”. The strategy for this integration is laid down in several policy documents; in those documents the EU presents a number of objectives.

The energy network service of the EU is divided in a couple of sectors but in this thesis two sectors will be discussed which are outlined below:

- Internal energy market:
The process of achieving an internal energy market in Europe started ten years go and has the aim to achieve full competition in the energy market that will lead to better service and lower prices for EU-citizens. National regulatory authorities have been installed to in order to supervise if companies operate according to EU-guidelines. Furthermore each country has to separate the production and supply activities and realize better cross-border regulation.
- Sustainability: renewable energy sources (RES) policy and legislation contains several sorts of renewable energy like solar power, wind power and biomass. The main target of the EU is to stimulate these alternatives in order to let renewable energy be a significant share of the total energy consumption.

Transport:

Transport is a major network service, which affects many people and companies in their daily life. For that reason the EC states that “mobility is essential for Europe’s prosperity and for free movement of citizens”. First of all one can divide the sector in specific transport sectors namely air, road, rail and maritime like inland waterways. To limit the transport service only the rail aspect will be discussed in this thesis.

In the field of rail transport the EU states that particular attention should be paid to the revitalization of railways that should be achieved by integrating rail transport into an internal market making optimum use of infrastructure and modernization of rail transport services in each member state.

Member states have to take several steps in order to comply with European standards for the integration of rail transport in the EU namely:

- EU Member States have to establish market-oriented Rail Freight Corridors in order to integrate passenger and freight transport, and the strengthening of the infrastructure manager’s co-operation on investment and traffic management.
- EU Member States should have regulatory bodies in place to monitor railway markets
- A decent framework for public and private investment has to be set up

Telecommunications:

The telecom sector consists of mobile and fixed telephony, Internet and other modern information services. To limit this telecommunications network service the thesis will focus on telephony and the Internet market.

In order to comply with EU-standards a number of conditions have to be met.

The main conditions are outlined below (EC, 2010):

- There has to be free competition on the telecom market. All players should have the freedom to enter the market. This can be realized through a full liberalization that includes the privatization of national telephone companies, which may have a competitive advantage.

- The (mobile) communication regulation in a country has to be standardized according to EU-regulations. Besides that the state should limit its influence on the telecom market and there should be a National Regulatory Authority (NRA) which can independently undertake decisions.
- A country has to strive towards aims determined by the EU about the percentage of broadband Internet penetration or universal service obligations.

Serbia needs to integrate these services in line with the EU-guidelines, which were summarized in chapter two of this thesis.

2.2 What is the current status of the NBS integration in Serbia?

In this section, the integration status of each service will be described. With this status a clear picture will be provided about what has been achieved till now and what still needs to be done. In this thesis the status of Serbia will be analyzed through the criteria that were described in chapter 3.1 for every network based service.

As stated before the main data sources that will be used to determine the status are the EC documents and the EC questionnaire, which was released by Serbia in January 2011. These mainly legislative sources are possibly not entirely reliable, as (Schimmelfennig & Sedelmeijer, 2004) point out that the adoption of the *acquis* by the CEECs appeared impressive but consisted mainly of formal transposition instead of effective implementation and enforcement.

Postal Services:

The postal services' status is described on basis of the two characterizations in 3.1.

The information is extracted from several parts in chapter 3 relating services of the questionnaire. As with the other network services not all aspects are covered.

- Open postal market: the Serbian postal law states that there are no differences between national and foreign persons in the field of establishing a company. The tariffs in the postal market for universal postal services are however still determined by the government and not by competition. The private operators have the right to determine other postal services prices. Postal providers from EU member states have the right to provide postal services in Serbia if they are being granted a license by the government. This license is based on territory; type of services and most importantly the applicant needs to have a sufficient postal network.

Even though entrance to the market is possible the public postal provider has the monopoly on transportation/delivery of letters till a certain limit weight/price and the transportation/collection of money orders.

Main problems exist in the capacity of the regulatory body that should supervise the functioning of the free market. However it has a serious lack of administrative capacity.

- Universal service guarantee: the service is being stated in the law as an activity that is in the common interest of the state. It is also the responsibility of the state to provide this service and is therefore provided by the public postal operator.

Energy

The categories of chapter 3.1 will be used to describe the status and progress of Serbia. The information for this sector has been extracted from the EC-questionnaire chapter 15. It concerns a number of sectors in the energy industry:

- Internal energy market: At this moment the process of privatization has not started yet in the electricity branch while the oil and gas branch has been partially privatized. All companies that deliver energy in Serbia are state owned and the government keeps the prices relatively low as well. However drafts for the current energy law (that have been partially implemented already) include a liberalization of the energy market and an unbundling between regulated and competitive activities. Furthermore

there will be expanded authority of the Energy Agency; these drafts should lead to a competitive internal energy market.

Besides this Serbia inventoried a number of problems that occur if the *acquis* is being implemented as well. First a change in financial cash flow would arise, as tariff settings would change. Secondly Serbia would have difficulties to meet its RES targets if renewable energy would be exported. Finally there would be problems in the functioning of the gas market, as there is to lack in financial funds to keep up with the infrastructural demands of the EU for the security of gas supply.

- Sustainability: the renewable energy sources (RES) are at the moment only used in pilot plants as they started in 2010. It is expected that the RES will grow in the upcoming five years. Furthermore Serbia laid down in their energy strategy agenda that there will be a special priority in the use of renewable sources. Nevertheless the RES sector consists mainly of a range of smaller scale investments and those are entirely focused on the private sector, which includes short and long term.

The main problems to make the transition are a lack of experience and technical standards, transitional issues in the industry and finally too much bureaucracy combined with a lack of knowledge among officials.

Transport

As described in Section 3.1 the focus for transport will lie on the integration of the railway market in Europe. The information of this subsection has been extracted from the EC-questionnaire, Chapter 14 Section B and Chapter 21, and the progress report page 44. Following from Section 3.1 the following categorization is used:

- Transport corridors and co-operation: in order to realize corridor X a large number of projects are being planned, that nearly all include rehabilitation and modernization of railways. Furthermore progress has been achieved in the cooperation with countries in the Balkan region.
- Realization of free competition in rail market: at the moment other operators can apply for a license. However even if they have the specific

license they cannot enter the railway network. The main cause is the delayed reform of the national railway company.

- Regulatory bodies: Serbia established a directorate for Railways but this directorate is only responsible for a couple of necessary functions mainly based on issuing of licenses. Functions for investigation and functions relating to an open rail market have never been implemented. In addition the human resources for the directorate are still insufficient.
- Framework for public and private investment: at the moment the national railway company is still under the responsibility of the state and has a huge debt. The separation of infrastructure and operations has not been implemented as well.

Telecommunications:

Following the separation from chapter 3.1 the following categories can be distinguished. Information has been extracted from chapter 7 and 10 of the EC questionnaire and the progress report 2010 page 47.

- Free competition in telecom market: Recently there have been developments in the telecom market. The state has made several preparations to privatize the state telecom provider MTS. There are concerns if this process is fair and transparent. In addition it seems the liberalization process is more a formal procedure till now.
The state has the policy objective to enhance the competitiveness of the market and the law for protection on competition is also applicable for the communication market. Special protection and regulation is paid to the players with the largest amount of power in the market which is carried out by the Republic Agency for Electronic Communications (RATEL). The current status of the liberalization is that fixed and mobile several operators have a license and that the liberalization is ensured by an adoption of the rulebook on Terms and Conditions. However obstacles still exist in the limited competitiveness of the market and few competitive safeguards have yet been implemented.
- Standardizing with EU-regulations: at the moment there is the agency named RATEL that is responsible for most communication legislation but

they take for customer complaints as well. The agency is formally independent from the government but this needs to be improved. However the agency lacks financial and human resources, and therefore expertise and capacity to regulate the market. In 2011 RATEL will adopt a legislative package that has to align the communication more with the *acquis*. The guarantee for access to landlines telecommunication is laid down in legislation as well.

- Reaching the EU targets for telecommunication: the state has the policy objective to increase network availability to all users. Besides that they want to improve services as e-Government and e-Health. Services as the emergency number 112 and other European directives in this field are well under way.

According to Serbia's European integration strategy the integration of the NBS should be finished in 2013 as that is the target date for becoming a member of the EU as well. Seen in the light of recent developments this target date is not realistic anymore. It is therefore uncertain if the integration of the NBS keeps up the desirable pace.

Chapter 3: What are best practices in comparative countries regarding NBS integration?

The articles in this chapter mainly discuss practical cases about the NBS in several countries. The comparative countries for this sub-question are the eastern and central European countries that became a EU Member State in 2004 and 2007. The majority of the cases were chosen by the most applicable academic articles for the specific service. Merely in the postal services case an old member state was chosen namely France, as there was limited reliable information available about the new member-states.

3.1 Postal services in France

The liberalization of the postal market is in many countries still premature and for that reason a Western European country was chosen namely the liberalization of postal services in France. (Broussolle, 2009)

The article discusses the implications of the liberalization regarding social and territorial cohesion and more specifically the impact on France. It consist of a exploration of sources of concern in the postal service deregulation process and then continues to analyze the territorial issue which relates to the Universal Service Obligation mentioned in chapter two as well.

The postal service market can be divided in many aspects like transporting, sorting etc. The delivery aspect of the postal market has up till now encountered relatively little competition in comparison with the other aspects. However the delivery market, especially the bulk mail, is a market, which can be entered relatively easy and can be made profitable by creating certain cost-effective niches.

The deregulation process started in 1997 but up till now a monopoly for post under 50 gram still exists which means in practice the impact on the market is still limited. If the market opens for competition then the main task is to preserve the social and territorial cohesion by using the USO. However this USO means that the Universal Service Provider (USP) in this case La Poste has a restriction in the way to react or adjust to the competition. The reason for this

restriction is because the USP loses income on the bulk-mail but the costs for maintaining the network throughout the country will stay on the same level. Furthermore the postal market in rural areas is not very profitable. As a result the USP needs compensation and can raise prices for single post or has the possibility of cutting in services for rural areas. A solution for the problem is to use single pricing. It has several advantages like protecting customers, and disadvantages like a too-high price for low-cost areas. Nevertheless the most important impact for the market is stated in the article as 'Entry is viable at all the considered scales when the incumbent has to price uniformly. When non-uniform pricing is allowed, on the other hand, only large-scale entry is profitable'.

The results of the analysis in the article are a number of parameters that can measure the impact of full market opening. The parameters can be divided in three clusters that are summarized below:

- Market attractiveness: this cluster discusses the attractiveness of the market for new entrants. This includes elements like size, characteristics of the mail and the share of postal delivery in urban areas.
- Capacity of reaction of the incumbent: the parameters give an image of how the incumbent (in many cases the public postal company) can react on the opening of the market. Variables like labour costs, innovation, efficiency and demand elasticity can determine the reaction
- Specific social and territorial burden: discusses the parameters that are influencing the postal operators and especially the USP in the postal market. Variables like type and extent of the USO, size of a country, network characteristics and territorial constraints.

Concluding the article states that there will be a tension in the new situation for the UPS in following the USO or ignoring them in order to stay competitive and survive in the free market. These conclusions are dependable on the local situation and these observations are especially applicable on countries with an uneven postal density and a high average postal delivery per inhabitant. Conclusively one can assert that in countries where delivery costs are fairly

differing, the USP will have more difficulties in fulfilling its obligations.

3.2 Telecommunications in Czech Republic and Hungary

The most comprehensible article about the integration of telecommunications services was the telecom case concerning the Czech Republic and Hungary to reform their telecom administration (Norgaard & Moller, 2005). The main purpose of the article is to explore if post-communist governments are by definition conservative and anti-reform or if they can be an engine of change as well. As stated before the authors use the reforms in the telecom sector.

The authors use in their article three kind of indicators to measure the degree of progress made in the reform of the telecom sector. The first indicator is privatization that is defined in this article as “the sale of shares in a state owned corporation to private investors”.

The second indicator is perfect competition where new players can enter the market and where cost effective prices determine the winners and the losers. Finally there is price regulation that means the control of the state over the sector and particularly concerns rules of entry, end-user and interconnect prices. It turned out that Hungary surpassed the Czech Republic regarding reforms in the telecom sector. In many areas the Czech Republic avoided to take steps towards a telecom sector that complies with the EU standards while the opposite was the case in Hungary.

In order to explain this difference the authors use the theory of ‘institutional veto points’. This theory proposes that reforms go through a process in the administrative system; this system consists of five “veto points” or filters where a reform has to go through in order to be implemented. A remark has to be made that an assumption is that the executive leadership promotes institutional reform and the administration obstructs this reform.

The authors propose that the filters in Hungary are more open than the filters in Czech Republic as the reforms in Hungary are far more ahead then those in the Czech Republic.

The first veto point is the federal vs. unitary state dichotomy that implies the difference between a federal state where “the executive is constrained by constitutional regulations that policies have to be achieved between autonomous

bureaucracies” and a unitary state “ where policies can be decided and implemented at the political and administrative centre”. In this situation both countries can be defined as a unitary state so that cannot explain the variance. The second veto point is the party competition concerns the existence of a coalition of parties or one dominant party. In this veto point the countries can be compared with each other as well as they both have a coalition system in practice.

The third point relates to level of Rechtstaat control and means, “with the extent to which actors have the possibility to refer policy decisions to constitutional or administrative courts, thus blocking already adopted policies”. On this point it could have slowed down politicians in Czech Republic however practice showed that it was not possible to file administrative complaints against any of the three indicators.

There were complaints about irregularities however the monopoly was strong and consumers did not have the resources.

The fourth point relates to an independent regulatory authority which “would work as a conservative force, circumscribing administrative reform capacity”.

The authorities were organized differently in Hungary and Czech Republic. In the Czech Republic the two regulatory authorities responsible for the telecom sector were under strict political guidance and control. In practice the parliament had control over the formulation and implementation of the privatization policy regarding the National Property Fund (NPF). The regulatory authority (CTO) changed between ministries concerning the organizational structure. The CTO was not granted any formal independence till 2000 however in practice it has always been under political control. In Hungary the State Privatization Agency (STA) has not been under strict political control.

Furthermore the regulatory authority (CA) was an independent regulator since 1993 and implemented and initiated legislation. Theoretically the CA has a relatively a lot of influence to block reforms. What can be observed is that the opposite happened of what the theory predicts. It shows that the NPF and CTO in the Czech Republic were only instruments for politicians to achieve their political goals instead of professional organizations.

The fifth point relates to the level of interest group domination, which means “relations between public actors (the regulatory authority) and private actors (the incumbent operator) can be an important hindrance for reforms”. In the Czech Republic the whole decision making process was a process of cold and distrustful relations between all the actors largely due to political influence and regulation. In Hungary the relations were very good and the various actors had good relations with each other. This good relation between public and private led to a higher reform capacity.

Concluding one can say the last three veto points were not the explanation of the capacity and pace of the reforms. Instead it were the politicians who took over control over the actors in the process and by using this control the government could decide the pace of the reforms they liked best.

3.3 Rail transport in Estonia and transport policy in Romania and Bulgaria

The first case concerns the rail transport sector and is based on a publication about the rail transit policy of Estonia (Koppel, 2006). A comparison with Estonia is suitable as it is a member-state who liberalized its rail transport sector relatively well.

The article analyzes if the railway section of Estonians national transport policy is integrated with the EU rail transport policy. It does so on the basis of concrete variables abstracted from the EU directives concerning the railway sector. The deregulation of the Estonian railway sector started in 1996 and is up till now not finished. At the moment the railway company is privatized and being reorganized in a new group of companies. In the field of opening the rail transport market Estonia made several steps. Companies from outside Estonia can make use of the public railway network if they want to use the rail network for freight transport. The licenses for this transport are given out under EU regulations and up till now 19 licenses have been given for providing rail freight services.

In the field of increasing the share of rail transport Estonia faces some difficulties. The buses are still a competitor for passenger rail transport due to the line permits policy of the ministry. In the area of freight there are certain areas that are growing like the increase in charter trains. However the opening

of the rail market for competition has not brought any significant growth in passengers and freight. In the field of investments there have been some investments by the private rail company EVR. Besides that subsidies for passenger transport have gone down however it seems that in the future these subsidies can come back.

The article leads to three conclusions. The first one is that the measures taken by the Estonian government are sufficient however the methods are not always sustainable. Because of this there has been not fully taken advantage of the privatization to manage the railway on a commercial basis instead of on the state's tax revenue. Finally the EU regulations concerning private railway initiatives cannot be implemented anywhere because they are too general and do not take local circumstances into account.

A second case concerns the transport sector in Romania and Bulgaria and the main challenges for the future after the enlargement (Giannopoulos, 2005) round in the Balkans. As Serbia plays a large role in the Balkans as well the discussed challenges for the transport sector also concern Serbia.

The authors first outline the aims and issues of the common transport policies. Regarding the rail aspect it concerns the frontier checks for rail passenger and freight transport crossing one country to another. Second there should be the liberalization of the railway services to increase the competition but it would enhance transport in the region as well. Thirdly a promotion of the "Trans European Rail Freight Freeways" in South-Eastern Europe is necessary. There are a couple of factors that determine the realization and success of this transport aims.

The factors will be summarized below:

- The current socio-political environment that has to be stable in order to be a monitoring and corrective force in (transport) policy implementation.
- New forms of spatial organization: developments in transport and communications have facilitated the emergence of complex forms of spatial organization, in which much greater integration across space has taken place. Such integration can be observed at a variety of scales.

- The prevailing value systems: shifts in societal values seem to be occurring now. Such shifts, if continued, will obviously have direct implications for all kinds of transport.

The above factors are all part of the demand side in the transport field.

According to the authors there is a supply side as well to satisfy these demands.

First a coherent network of transport in the South East should be developed where rail infrastructure is part of (high speed and conventional) and private financial funds has to be found as well. New technological possibilities have to be used to achieve a higher level of integration. A final factor is the way transport companies are organized and co-operate.

An important aspect of the development of transport in the South East is the quality of the transport. The need for quality will go up for a number of reasons. The demand for higher quality infrastructure goes generally together with changes in production and consumption and work organization. Furthermore will the transport infrastructure supply never be able to catch up with demand so one has to come up with other (soft) means of logistics.

These transport services in the new member-states will then evolve in three cycles namely:

- Growth: increase in the volume of transport but also in new logistic systems and physical infrastructure
- Equity: wider availability and use of the higher quality services by an increasing number of users
- Environmental: environmental restrictions, incentives for efficient use of transport and green types of vehicles

All of these developments lead to a transport model in Southern-Europe that is multi-model, suitable for the modern information and communication technology (ICT) user, market quality and available for small and medium sized users. Furthermore the model should take into account the mobility in rural areas, as these need investment in communication and physical infrastructure. The first conclusion from the article is that a regional transport policy is a

necessity by reasoning cross-border, realization of transport axes and further liberalization and priority to the railway and combined transport services. A second conclusion can be seen in the light of the continuing growth of traffic volumes on the road. Because of this growth the percentage of railway traffic has to be retained and where possible rail corridors should be upgraded in order to control the traffic volumes on the road. Finally one can formulate two important characteristics for the future of transport. First of all the process of integration of the transport provider in the transport and logistics chain has to be continued. In addition a closer co-operation and integration with the customer by making use of modern ICT systems is vital.

3.4 Energy policies in the new EU member states

The first case discusses the analysis and implementation of RES-policies in the new-member states (Patlitzianas, 2005). It states that in the new-member states there is still “an insufficient and fragmentary legal framework regarding RES” and in addition “allocations from the state budgets to promote RES are scarce” with the exception of preferential taxes. A more detailed oversight of the main problems is outlined below:

- There should be more assistance for project development
- Too much administrative bureaucracy and a lack of information of the RES projects.
- Targets of the countries are too ambitious and many times the policies are inconsistent. This has a negative influence on the trust and the policies are becoming too expensive.

Besides these problems there are positive developments as well. Estonia has been for instance seeking outside investment for applicable infrastructure improvements.

Furthermore they are striving towards more competition and diversity within the energy industries. Latvia has a special feed-in tariff for eight years that is double the average electricity price, which should stimulate sustainable

infrastructure. Another general success condition is also the existence of domestic manufacturers of RES equipment.

The second case discusses the liberalization and privatization of the energy sector in Romania (Marinescu & Haar, 2011).

The developments in Romania in the liberalization process have been significant. In general a wide interest existed to invest in the energy market in Romania.

Below are a selection of main conclusions and recommendations from the article formulated:

- The Romanian government implemented liberalization because of EU regulations. As a result foreign companies in return for future profits installed the newest technologies.
- Romania was attractive for foreign direct investment (FDI) due to a large domestic customer market, underpriced assets and access to generation capacity. Foreign companies acquired in total five out of eight distribution companies. Still it is hard for the companies to get a position in the local market as the ties between the local population and domestic companies still exist.
- In order to maintain a competitive energy market the Romanian government should consider the creation of one or two integrated regional players. This would fit in the European energy policy perspective as well. Nevertheless the government has to continue its non-discriminatory policies towards FDI into energy due to its role in the energy infrastructure and the investment in RES.

Chapter 4: Which recommendations can be formulated for the NBS economic integration?

This chapter formulates recommendations for Serbia to successfully implement the integration of the NBS by using the cases in chapter four and a number of articles concerning EU law compliance and implementation.

The recommendations in this chapter will be in relation with the six steps and accompanying measures and regulation from (Pelkmans, 2006). In this way the recommendations will be comprehensible and an orderly view will be realized how these recommendations can be implemented. Only the steps that fit with the best practices from the articles will be used. The recommendations will be divided throughout the four network services, but will not necessarily be only applicable to one of the characteristics of the specific network service.

4.1 Postal services:

The main usefulness of the article of (Broussolle, 2009) for the definition of recommendations can be found in his classification of the parameters and the description of how the USP does or should react to the new situation. It is therefore reasonable to apply these parameters on the postal services in Serbia and more specifically on the USP in Serbia. The article also concludes that the impact of the competition should be watched closely in order to guarantee the USO by using compensation measures. This is applicable for Serbia as they provide decent USO, described in chapter three (page 39) of the EC-questionnaire (EC, 2011), but may lose income on other postal services that are as the market fully opens for foreign competitor questionnaire (Serbia ought to monitor the developments in the market closely. The second aspect the article discusses is the aspect of market attractiveness to get an insight in what way foreign competitors would be interested and therefore what would be the impact on the incumbent. Assuming the market in Serbia is equal to Bulgaria, Slovenia etc. one can conclude that a comparison cannot be made.

As the article does not discuss the position of the postal operator extensively, the postal operator in Serbia will not be discussed either.

Taken the insights from the parameter “market attractiveness” into account it will lead to the following recommendation:

“The authorities of Serbia should monitor the impact of FDI on the condition of the incumbent”

As parameter two concerns the national postal operator it will be left out of this thesis. Parameter three ‘Specific social and territorial burden’ will lead to a recommendation that relates to the USO. This recommendation is particularly essential if there is FDI and thus competition in the Serbian postal market. The recommendation can be then be formulated as:

“The authorities of Serbia have to supervise the lawfully filling-in of the USO by the incumbent”

These two recommendations should contribute to a vigorous postal market in Serbia in which the USO is guaranteed for customers and the national postal operator can sufficiently carry out the USO.

4.2 Telecommunications service:

The article in chapter four discussed the implementation of the liberalization of the telecom market in Czech Market and Hungary. It is therefore reasonable to apply the best practices of successful implementation on the European integration route in Serbia. Serbia has an ex-communist country comparison with the Czech republic and Hungary in the sense of the organization of the administrative system and political system. This means that Serbia has a unitary state and a party-coalition system as well (Pesic, 2007). Regarding the third point relating to Rechtstaat control is there no difference as well as Transparency Serbia pointed out several times that the possibilities for obstruction are in practice limited. Up till now the situation is basically the same in Serbia as in Hungary and Czech Republic.

The theory predicted that the existence of an independent authority would work as a conservative force. The organization of the regulatory authority in Serbia can be compared with the situation in Czech Republic.

While there is the existence of an independent regulator (RATEL) in Serbia it lacks resources that makes it inevitable dependent on the government on various issues. Furthermore politicians still have control over RATEL, an example is that they still appoint the members of the board, unlike in Hungary where the situation was the opposite.

The level of interest group domination is the fifth point. It is hard to estimate the relation but there are cases of lawsuits of Mobile Telecom Serbia against RATEL however RATEL itself states that its mediating role is functioning correctly, which is naturally a subjective view (Telenor Serbia, 2011).

The first recommendation concerns the institutional aspect of the telecommunication reform in Serbia. This leads to recommendation one:

“The authorities of Serbia have to centralize telecom related activities in a independent RATEL and allocate the necessary resources to RATEL”

The second recommendation relates to the role of the regulatory in the telecom market. This leads to recommendation two:

“In its new set-up RATEL has to create a decent policy network in which stakeholders can cooperate on a basis of mutual trust”

These two recommendations will speed up the reforms in the telecom sector.

4.3 Transport service:

The transport has two different cases, one concerns the adoption of the *acquis* in the railway sector and the second outlines the future design of transport in the Balkan member-states. It is therefore logical to divide the recommendations for Serbia between the implementation of European legislation in the railway sector and a recommendation for the planning of Serbia's future domestic and regional transport policy.

Aspects and experiences with the adoption of the *acquis* were described extensively in chapter four however a number of lessons and experiences can be extrapolated to the current railway status of Serbia. According to the statistical office of Serbia buses are in Serbia the main transport system like in Estonia. It should adjust its railway policy in advance on this situation.

Furthermore Estonia had difficulties with the general guidelines which means Serbia should take these general guidelines seriously. The methods of the Estonian government are also not always right compared with the measures they implemented. Serbia should consider how the way it can privatize its railway company by subsidizing the tickets and by whom the investments should be made. Furthermore has to be taken into account that freight rail transport is of more importance and the regulatory body needs more capacity to issue the licenses in an efficient way to the new railway companies.

This leads to recommendation one:

“The authorities of Serbia have to determine their methods prior to the continuation of adapting to the EU-regulations, taking local circumstances into account as well”

The second article discusses the future of transport policy in the Balkan. According to the article Serbia should really speed up the process of liberalization in order to be ready for the transport policy in the future. The projects of corridor should not be delayed as they bring the necessary advantage for the future transport policy. Quality needs to be higher of the transport in Serbia and the various forms of transport should cooperate in Serbia like buses and trains especially in the light of economic growth after EU-membership.

This leads to recommendation two:

“The authorities of Serbia have to have to establish a enhanced stable climate, in which the maintaining of future investments in railway quality and regional infrastructure and realize further transport integration is crucial”

These two recommendations together ought to be of assistance in preparing the railway sector to be ready for the European membership and contribute to the regional transport network for further economical development.

4.4 Energy service:

The articles about energy relate to RES-policies, and the liberalization of the energy sector.

The recommendation can therefore be divided in one that relates to best practices in the field of creating RES-policies and implementing them correctly. The second recommendation can then relate to the process of liberalization of the energy market in Serbia.

A number of best practices and lesson can be extracted from the article of (Patlitzianas, 2005) concerning RES-policies in the central and eastern European countries (CEECs). The problems that occur in the other member states also come forward in Serbia like more assistance is needed and too much bureaucracy for new projects. Furthermore it states that targets are too ambitious and policies are inconsistent. Serbia should make sure that their policies have to be adjusted to realistic terms and let them not be dependable on political influences. Other best practices are the use of domestic manufacturers for equipment and more competition combined with investment and creative solutions from the government like feed-in tariff.

Applied on Serbia the practices lead to recommendation one:

“The authorities of Serbia have to stimulate domestic energy equipment industry in combination with creative and innovate policies for government measures that need stable realistic objectives”

The article of (Marinescu & Haar, 2011) delineates the energy market liberalization in Romania. Romania liberalized the energy market relatively successful due to EU-regulations; it should therefore be useful for Serbia to keep following the path of the EU regulations in order to preserve the current energy market reforms. Furthermore the article stated that Romania should start or keep domestic or regional companies in order to maintain a decent level of competition in the country without blocking the way for further FDI. This is applicable as well to the RES projects that are dependable on private investments.

Applied on the current status in Serbia this leads to the second recommendation:

“The authorities of Serbia have to continue the current implementation of EU-regulations to attract valuable investments but should preserve their existing domestic energy companies”

Besides the fact that these recommendations should assist in the European integration process they can take care for a desired situation after accession as well.

Conclusion:

At the start of this thesis the main-question was posed how the implementation of the European regulations for network-based services in Serbia could be improved. The method proposed in the introduction was to use several EU-member states that experienced similar integration processes as a comparison. To carry out the comparison an analysis of the current situation in Serbia and the process regarding NBS is necessary and therefore chapter one outlines these analysis. Chapter one concludes that the political situation in Serbia has improved significantly the last from in its stance towards European integration. There is at the moment political will to make the integration of Serbia in the EU a success. Furthermore puts the government more effort in the implementation of laws and reforms, which result in progress reports that conclude that Serbia is moderately advanced in the implementation of EU regulation. Yet a final remark has to be made which relate to the corruption problems in Serbia surrounding the integration process that are frustrating the decision making process and the necessary public procurement processes.

As this analysis was conducted in chapter one, chapter two dives more into the description of the area under discussion namely the NBS and moreover the NBS integration status in Serbia. For the postal network service in Serbia it appears that most regulations are law on paper rather than in practice. In the energy network service some steps have been made towards a liberalization of the market but many difficulties arise as the state has still a large influence in the network. The RES-policies are available on paper in Serbia but consist mostly of private investments and fall behind because of too much bureaucracy and a lack of knowledge. In the transport network service there have been improvements regarding the investments in infrastructure. However the competitive market for rail transport is far behind due to a lack of a competent regulatory body and a national railway company that has not been privatized and managed well either. In the telecom network service one can conclude that the liberalization is partially complete but that the regulatory body needs to be more independent and further legislation has to be implemented as well.

Chapter three provided the necessary cases for each NBS to draw up a comparison. For the postal services a case from France was chosen as cases from CEECs were not sufficient for a comparison. The case from France showed that one ought to keep a close watch on the USO by the incumbent and should take the attractiveness of the market into account as well. The conclusion for the telecommunications service case in Czech Republic and Hungary was that a strong independent regulatory authority is necessary and that there must be sufficient cooperation between the external stakeholders. In the transport network service the Estonian case showed that the regulatory body has to be capable of handling the new situation. Furthermore the general European guidelines should be adjusted to the local situation. In the second case which concerns the transport future policy for the Balkan, the conclusion led to a recommendation for more investments in infrastructure and enhanced cooperation in the transport sector combined with further liberalization. In the final network service about energy the conclusion from the RES policies in the CEECs were that targets and policies were too ambitious and inconsistent also the responsible personnel was not adequately trained. The case about the liberalization of the energy market in Romanian led to a conclusion that EU-regulations lead to a relatively well reformed energy market. A second conclusion was that the Romanian government has to take care for competition in the market by stimulating domestic energy companies. The final recommendations which were being formulated for a satisfactory integration of the NBS can be found in chapter four.

The answers on the research questions above can lead to a general recommendation as well that applies for the integration of all the NBS. The first policy implication is based on the “nature of competition step” which concerns competition in and for the market. Examples of this step can be found in most of the cases in this thesis. They show that in all the network sectors the national authorities play a critical role in the field of stimulation and supervising in order to let the integration be a success. The cases show as well that the local circumstances are vastly important.

This ranges from the position of the incumbents till the preservation and/or stimulation of the domestic industry, but countries have to adjust their methods as well on local circumstances like the position of stakeholders and the atmosphere in which they operate.

The second policy implication concerns the step related to the protection of public service levels and non-distortive financing of the USO. The cases show that monitoring is crucial to maintain this condition. Nevertheless conditions for foreign operators should be closely watched as well with a possible role for government funding if the incumbent cannot keep up the desired service.

The final policy implication concerns the step about non-distortive access to network(s). It shows that a strong independent regulator is necessary to define the conditions for entrance to make sure politicians cannot influence the process. Furthermore adjustments should be made through a local view. In the case of cross-border trade countries have to realize the importance of the growing transport in the future. This vision has to be realistic and should be realized in practice by making more investments and regional cooperation.

The research that has been conducted in this bachelor thesis has several limitations. The analysis of the situation in Serbia is limited due to the fact the information is limited and in several cases not reliable. The same limitations apply to the available information about the practices from the countries from the comparison. Furthermore some of the selected countries are not ideally comparable, for instance the postal services practices comparison with France. Future research directions can be conducted if a more thorough analysis of the Serbian situation regarding network-based services is included and practices from countries that are cultural and economical equal can be gathered possibly through cooperation.

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