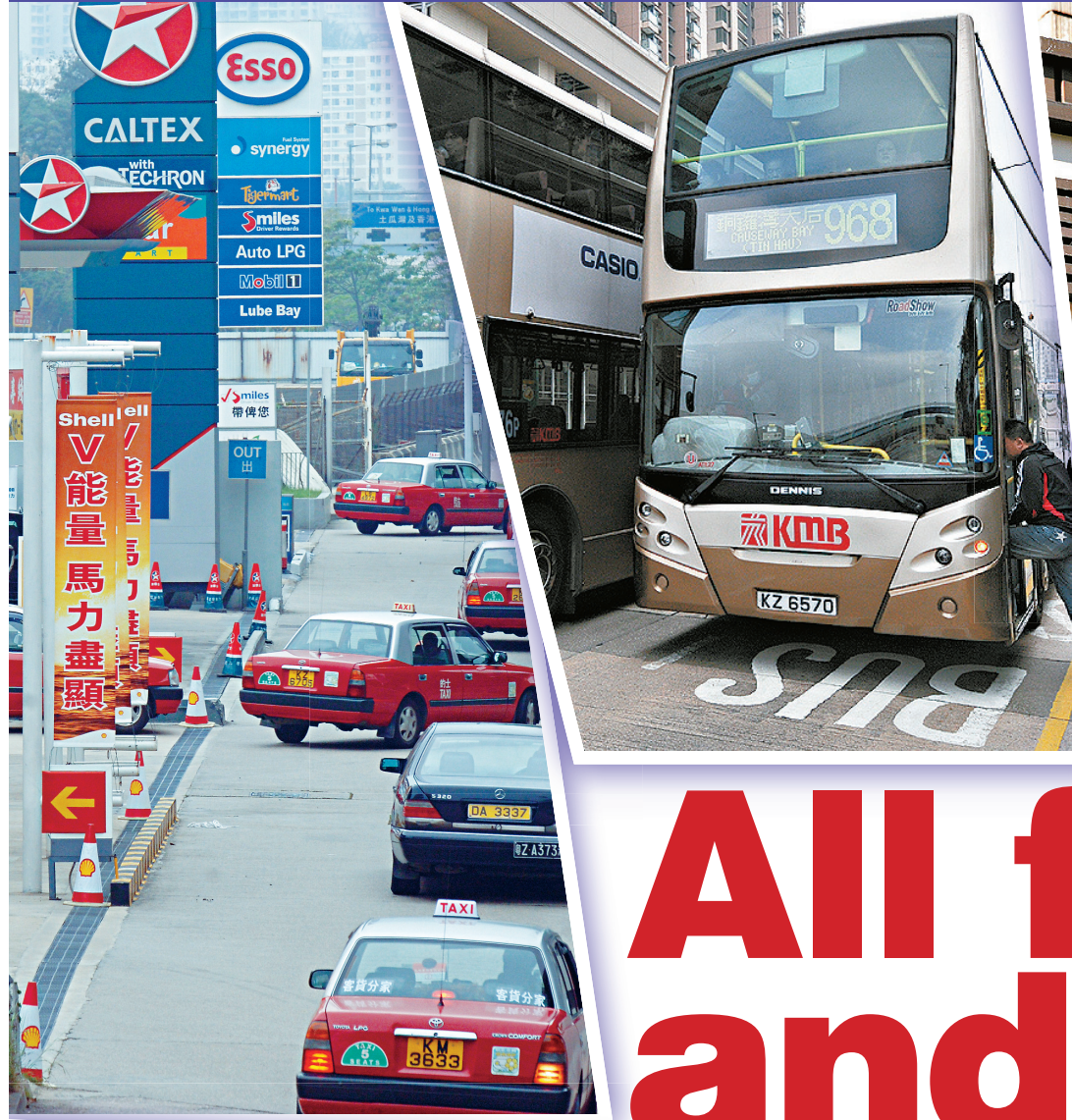


This article enables students to:

1. Assess phenomena, trends and impacts in relation to society and culture.
2. Identify the interdependence among societies, countries and the world.



# All for one, and one for all

In April it was announced that water, gas and MTR fares were to go up. This prompted criticism of utility companies that were accused of monopolising markets and manipulating prices to the detriment of the consumer.

HONG Kong's public utility services are mostly **monopolised**. In a monopolised market, there is only one supplier. In such a market, products can be homogeneous or **heterogeneous**, and buyers and sellers are said to be deprived of information. The goods sold do not have any viable **substitutes** in the market. And new manufacturers are usually incapable of entering the market, or find it very difficult.

There is only one supplier of water in Hong Kong, only one Towngas, one China Light & Power... Under such an environment without competition, these businesses can, in principle, manipulate prices. When they want a price hike, consumers can do little to object.

## Making a monopoly

### 1. Enormous capital

How can monopolies even exist? In the case of an electric company, it is a natural monopoly. Because the investment capital needed to enter the market is so large, having a single supplier will be most cost-effective. It would not be easy to set up another electricity supply company because it involves erecting electricity plants, and power **transmission** networks.

### 2. Government duty

Other than capital, the very act of the government fulfilling its natural role in society makes a monopoly. Drinking water, for example, is a necessity. The government must ensure that everyone has access to a clean and safe water supply, so there

must be no other supplier in order to avoid any impact on the quality or price of the water supply. National defence is also exclusively operated by governments. As it has to do with national security, the market cannot be opened up to others.

### 3. Government-granted monopolies

In addition, there are also government-granted monopolies. Examples include the bus companies or intellectual property owners who possess a registered trademark, copyright or special resources.

Under certain conditions, a monopoly is necessary, such as when it has to do with security. Sometimes it appears naturally, as in the case of investors being frightened away by large capital investments required. But in Hong Kong, the need for some of the monopolies is debatable. For example, in the case of **franchised** bus companies, would it be possible to open up the market to introduce more competition so that bus fares might be automatically regulated by the market and the service quality upgraded, in ways that could benefit citizens? Ⓢ

## Oligopoly

There have been voices asking for the opening up of bus operations. But is it worth implementing? What are the advantages and disadvantages of doing so? The various sectors concerned should think carefully about it. Looking at it from one angle, this example reflects the impact on people's livelihood as a company monopolising a market affects prices and service quality. In principle, these businesses have the absolute right to decide. Even if they provide a poor service, consumers can only accept it because they have no alternatives.

### Petroleum companies

In Hong Kong, businesses that have a market monopoly are usually under a certain degree of supervision by the government. In contrast, the market is freer with an **oligopoly**. Oligopoly refers to having only several or a minority of influential suppliers. Hong Kong's petroleum market is a good example, with several petroleum companies including Shell, Caltex, ExxonMobil and Sinopec. One feature of an oligopoly is that in addition to cutting prices, companies will also use non-price competition to attract customers, such as giving away small gifts. Each supplier will operate in reaction to the opponents' competitive behaviour. Hence they may have

price hikes together or start up a price-cutting war. But in order to avoid **cut-throat** competition, ending up with both sides suffering, they will not easily make changes to the price.

### Monitoring LPG

Recently, Caltex announced that due to market shrinkage, it will be withdrawing gradually from the liquefied petroleum gas market. Some expressed concerns that with the lack of competition in the LPG market, this would lead to a monopoly. In the future, they said, the problem of price **manipulation** could worsen. They urged the government to monitor the LPG market to avoid the withdrawal of the supplier affecting citizens.



## Exercise

Read the news extract below and answer the questions.

The executive committee of the European Commission is conducting an anti-monopoly investigation on internet search engine Google. This is because three online companies have lodged a complaint against Google, saying that the way it orders search results harms their commercial interests. This is the first time the EU's anti-monopoly department is to investigate Google. It sounded alarm bells at the company. Some said it appeared to be an act to kick Google out of the European market.

Google is estimated to have a market share of 90 percent in Britain's search engine market. But it uses filters to remove the websites of competitors or put them in lower positions when presenting search results, making it hard for netizens to notice the existence of these web pages, critics said. But Google denied the accusations, stressing that the order is arranged to the best interest of the user. No intentional selection of web pages or blocking is involved.

Source: Google under investigation, accused of monopolisation

Sing Tao Daily, February 25, 2010

### Think about it

1. Google has been accused of market monopolisation. Why?
2. Has there been a similar case? Give a brief description.
3. A well-run company develops into an international business. But then it is accused of monopolisation. What do you think about this? Is it fair to punish companies for success?

Critics say monopolies and oligopolies contribute to inflation in Hong Kong. One or only a handful of corporations take up the whole market and can manipulate prices as a result.



### Key ideas

The word 'monopoly' has come to be a negative term in modern society. In general, it refers to a business reaping great profits by dominating a market. In economics, a monopoly is only a market structure, that is, a relationship between buyers and sellers. There are several market structures. Look at these below:

- Complete competition
- Non-complete competition
- Monopolistic competition
- Oligopoly
- Monopoly



### Did you know?

### References

- News report about Microsoft and its anti-monopoly legal case  
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