27.1 Introduction to Anti-competitive Behaviours

1. Anti-competitive behaviours are those practices that reduce competition in a market.

2. If two firms raise their prices by the same extent at the same time, they *(engage / may not necessarily engage)* in anti-competitive behaviours.

27.2 Major Forms of Anti-competitive Behaviours

3. A horizontal agreement is an agreement among actual or potential competitors in the same industry or in the same stage of production.

4. Name the following horizontal agreements.

Name	Meaning
Collusive bidding/ Bid rigging	an agreement between bidders that they will not compete genuinely with each other for a certain project
Unfair or discriminatory standard	a standard agreed to among existing members of a trade union to restrict the entry of new firms
Market division / Market sharing / Market allocation	an agreement between competitors to divide a market or a number of markets among themselves
Joint boycott / Group boycott	an agreement between some firms not to do business with specific suppliers or customers
Exchange of information	an agreement between competitors to exchange information that is competitively sensitive
Price fixing	an agreement between competitors to fix, raise, maintain or otherwise control the prices of their products or services
Sales and production quotas	an output limitation agreement between competitors to restrict the market supply of certain goods or services

5. A vertical agreement is an agreement among firms engaging in different stages of production or distribution.

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6. Name the following vertical agreements.

Name	Meaning
Tie-in sales	A buyer who buys a product from a firm is required to buy another product from it.
Resale price maintenance / Vertical price fixing	It is a practice where suppliers set a specific resale price, a minimum price or a maximum price that distributors or retailers have to follow when they resell a certain product.
Bundling of goods	Offering two or more items together as a package at a bundled price which is usually lower than the total of the individual items' prices.
Exclusive dealing	It is an arrangement in which a buyer (supplier) is required to deal with a supplier (buyer) only.
Exclusive territory	It is an agreement between a retailer and its supplier under which the retailer has the sole right to sell products of the supplier in a particular territory.

7. A merger occurs when two or more independent firms are combined into a single firm.

8. A *(horizontal merger / vertical merger)* will reduce the number of competitors in the market while a *(vertical backward merger / vertical forward merger)* will restrict the sales channel of the competitors.

9. Abuse of dominance occurs when a dominant firm engages in anti-competitive practices that cause damage to competitors or create an entry barrier for potential competitors in order to maintain or strengthen its position in the market.

10. Name the following examples of abuse of dominance.

Name	Practice
Predatory pricing	A dominant firm sets a price below the cost of production.
Refusal to supply essential facilities	A dominant firm refuses to supply an input (e.g. an essential facility) to its competitors, or supplies that input only on unreasonable terms.
Margin squeeze	A vertically-integrated dominant firm increases the prices of raw materials supplied to downstream competitors to prevent them from making a profit in a downstream market.

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27.3 Impacts of Anti-competitive Behaviours

11. Which anti-competitive behaviour does each of the following firms engage in? State **ONE** way such behaviour may harm consumers.

(a) All supermarkets agreed to set the price of a pack of 5 kg rice at not lower than $100.

Price fixing. Price competition is restricted among supermarkets, leading to higher market prices.

(b) Café chain A and café chain B have agreed not to run cafés in the same areas.

Market division/Market sharing/Market allocation. The number of café brands in each area would decrease, resulting in a lack of choices for consumers.

(c) Other than those in (a) and (b), list **TWO** other adverse outcomes that may be caused by anti-competitive behaviours.

lower output / efficiency loss / lower product quality / lack of incentive to innovate (or any reasonable answers) (any two)

27.4 The Competition Ordinance in Hong Kong

12. Competition policy refers to a set of guidelines, rules and regulations governing market competition.

13. In the Competition Ordinance in Hong Kong, there are three 'competition rules', namely the first conduct rule, the second conduct rule and the merger rule.

14. To facilitate the implementation of the Competition Ordinance, the Competition Commission and the Competition Tribunal have been established by the government.

15. Which anti-competitive behaviour does each of the following firms engage in? Which conduct rule of the Competition Ordinance may each of them violate?

(a) Three vendors agree to coordinate their bids for providing catering service for a sports competition in such a way that one of the suppliers wins the bid.

Collusive bidding/Bid rigging. It may violate the first conduct rule.

(b) An airline reduces the price of its air tickets to a level below its cost of production.

Predatory pricing. It may violate the second conduct rule.

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