“Single” Monopoly Profit Theory and its’ exceptions

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27/04/2016
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Example: Maintaining the monopoly in the tying product

- "Single" Monopoly Profit Theory

- Necessary conditions for it to hold include:
  1. The monopolist has a durable and unregulated monopoly
  2. Products are consumed in fixed proportions
  3. Consumers have identical preferences
  4. No efficiencies of integration

- **Loosely based on a current case, awaiting for adjudication by the Tribunal**

- Two separate markets – one for embossing machines (the machine used to emboss a blank number plate) and one for blank number plates
- To operate a number plate embossing shop, one requires both products – the machine and blank number plates on which to emboss on

- AN Plates has a monopoly in manufacturing embossing machines
- AN Plates was a small player (2009) in manufacturing blank number plates
- The single monopoly profit theory suggests that AN plates would have no incentive to tie its number plates to the embossing machines
- AN Plates would simply extract its all the monopoly profits from selling embossing machines at a monopoly price

Example: Maintaining the monopoly in the tying product

- The SMP theory assumes a **durable monopoly** in the manufacturing of embossing machines
- If this is not the case, tying then becomes a way to maintain the monopoly in the manufacturing of embossing machines
- Without tying, firms that produce the blank number plates could use the entry as a foothold for entering the embossing machine product market
- AN Plates allegedly uses tying to foreclose this entry,
- Tying then forces rivals to enter to enter both markets simultaneously
- The simultaneous entry at two levels involves high barriers
- Further, **products are used in varying amounts**. Many blank number plates for one embossing machine

- In 2009, AN Plates introduced exclusive supply contracts to its customers
- These contracts ensure that any customer that purchases an embossing machine from AN Plates will procure all of their blank number plate requirements exclusively from AN Plates
- Customers enter into these contracts for five years.

•Blank number plates

Company Name	2009	2015
AN Plates	15%	85%
N Plates	50%	10%
V Plates	35%	5%

Closing remarks

- In 16 years of enforcing abuse of dominance provisions, the single monopoly profit theory has only be raised once

"We are very aware from work on other matters (such as the Microsoft case) and the economic literature on vertical foreclosure (in which we have published) that there are circumstances in which the one-monopoly profit argument does not apply and in which a firm with market power in an upstream market has incentives to exclude non-integrated downstream competitors. However, while such circumstances can and do exist, it is incumbent on anyone alleging vertical foreclosure to support these allegations with a coherent explanation of the incentive to foreclose and to explain why the one-monopoly profit argument does not apply…

The Commission's economists seem to recognize that the burden is on them to explain why the one-monopoly profit argument does not apply and why this should be seen as a case in which a firm with market power at the upstream level has an incentive to exclude non-integrated"

Source: Economic Analysis of the Competition Commission's allegations – Profert, CRA, 2008