

Competition matters in our daily life

Imagine the days when Hong Kong residents did not have any choice when depositing money into local banks because they all offered almost uniform interest rates. Or dissatisfied telephone service subscribers felt stuck with the same service provider because it's the only one in the city.

Many things in our daily life that we may now take for granted were very different before the markets were liberalised and competition was introduced progressively.

Liberalisation of telecom market

Nowadays Hong Kong's vibrant telecommunications market is highly competitive. Consumers enjoy a wide selection of diverse and innovative products and services across a broad price range. This was not always the case and years ago, the fixed-line sectors were not open to competition as both domestic and international services markets were monopolised for decades. The government adopted policies to open up the market in the mid-1990s and new service operators were introduced to compete with the incumbent.

The government has also sought to encourage a high level of competition in the mobile sector by progressively increasing the number of licenses since 1984 and introducing mobile phone number portability in 1999. Consumers have derived substantial benefits as a result of competition in the telecommunications sector. The cumulative savings recorded by local mobile phone users between 1996 and 2002 reached HK\$70.2 billion*. The telecommunications market also grew exponentially: investment in the industry increased by HK\$93.6 billion from 1991 to 2001*.

Bank Interest rate rules abolished

Hong Kong's development into an international financial hub is partially attributable to government's reform efforts aimed at aligning the local banking sector with international best practices. Among the initiatives was the abolition of the interest rate rules (IRRs).

Until the 1990s, the Hong Kong Association of Banks used the IRRs to set the maximum interest rate for certain types of Hong Kong dollar deposits. This made all local banks offer almost uniform interest rates, leaving them little room for competition on prices to attract deposits.

As a result of progressive deregulation, all IRRs were abolished in 2001 and interest rates on all types of deposits are determined by individual banks according to market conditions and their own strategies. Banks not only enhanced their service efficiency and competitiveness, they also innovated on products and services for the benefit of their customers.

Cross-sector competition law

Hong Kong's thriving telecommunications market and banking sector showcase the importance and benefits of a competition regime. The city has sought to safeguard the value of competition by implementing a cross-sector competition law. In a free market economy, businesses are expected to compete with one another and attract customers by offering the best range of products and services at the best prices. Competition also motivates them to improve the efficiency of their operations and innovate. A competitive market leads to better prices, products and more choices for everyone. Businesses, particularly smaller ones, have greater opportunities to enter and expand in new markets.

However, competition does not necessarily exist in all markets, particularly those without any exposure to



Consumers

Businesses

international trade. Even in a free market economy, we cannot simply assume that competition will exist naturally. There may be businesses that seek to erect barriers preventing or restricting competition to maximise their profits.

To promote competition and prohibit anti-competitive practices, Hong Kong enacted the Competition Ordinance in June 2012. The new law was in full effect since December 14, 2015, bringing the benefits of a level-playing field to Hong Kong consumers, businesses and the wider economy.

Competition Ordinance at a glance:

The Competition Ordinance prohibits restrictions on competition in Hong Kong through three competition rules:

- **The First Conduct Rule** targets agreements and concerted practices among businesses which harm competition. The most serious of these are cartels that seek to fix prices, share markets, limit output or rig bids.
- **The Second Conduct Rule** prevents businesses with substantial market power from abusing that power. While there is nothing wrong with being big, a large company will contravene the law if it abuses its market power to, for example, deny a competitor access to the market.
- **The Merger Rule** prohibits mergers that may substantially lessen competition. At present, this is only of relevance to the telecommunications sector.

The Competition Commission is an independent statutory body that enforces the Competition Ordinance and advocates for greater competition by promoting business compliance and public understanding of the Ordinance in Hong Kong. The Commission also conducts studies into matters affecting competition in markets in Hong Kong and advises the Government on competition matters.

*The Office of Telecommunications Authority's "Report on the Effectiveness of Competition in Hong Kong's Telecommunications Market" published in 2003.

What happens abroad?

The spread of competition law enforcement around the world has been remarkable. At the end of the 1970s, only 9 jurisdictions had a competition law. By 1990, there were 23 jurisdictions with a competition law and the number jumped to 70 in 2000. Today, more than 130 jurisdictions have competition regimes including most Asian countries. Hong Kong, Myanmar, the Philippines and Laos are the most recent ones joining their ranks.

Effects of competition law enforcement:



The Organisation for Economic Cooperation and Development estimated that **price fixing leads to a 10% increase in selling price**



Contract price of public procurement dropped 20% in Japan after strict enforcement against bid-rigging.



In Britain, **consumers saved at least GBP 195 million** per year between 2012 and 2015 as a result of its competition enforcement activities.

Did you know?

The Competition Ordinance adopts a judicial enforcement model to separate the powers of investigation, prosecution and adjudication. The Competition Commission is the only body that has the right to investigate the alleged contraventions, and is the only body that can take first instance actions in the Competition Tribunal, which is responsible for adjudicating cases of alleged breaches of the competition rules.

While the Competition Commission is the principal competition authority responsible for enforcing the Competition Ordinance, it shares concurrent jurisdiction with the Communications Authority in the telecommunications and broadcasting sectors.



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A society with or without competition law, what would it be?

Challenge yourself by creating compelling stories on the benefits of competition law and compete for **a study tour to Singapore!** Submissions in story writing, comic drawing, animation or video are welcome.



參加資格 Eligibility

全港中四及中五(或其他學制同級)學生均可組隊參賽，每隊須由一位老師帶領。Form 4 and Form 5 (or equivalent) students in Hong Kong are welcome to enter in teams. Each team should be led by a teacher.



獎項 Prizes

大獎 Grand Awards	x 3	三日兩夜新加坡遊學團* A 3-day study tour to Singapore
優秀隊伍 Outstanding Teams	x 6	港幣\$2,000書券 HK\$2,000 book coupon
其他入圍隊伍 Other Finalists	x 9	紀念品及獎狀 Souvenirs & certificates

* 獎項包括來回機票及當地住宿
Return air tickets and accommodation are included

報名截止日期 Registration Deadline:

13 / 4 / 2017

遞交作品截止日期 Submission Deadline:

15 / 5 / 2017



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