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LETTERS TO THE EDITOR

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Observe 'law of one price'

Editor,

The pro market-competition defence of the draft anti-monopoly law by researcher Qin Xiaoying ("Law to Protect Public Interests and Monopoly", July 13) is laudable except where he contradicts market economics' fundamental "law of one price."

The production cost of China's oil companies, like any other oil company, may be low compared to the current spot market price of oil. But, as long as China's oil companies have to pay the world price for the increasing amount of oil China needs that they cannot produce in China, only that "marginal" price can be the prevailing price charged to consumers for an extra unit of oil in a market economy inside China.

The oil companies cannot, contrary to Mr Qin's suggestion, charge some lower price based on average cost. Why? First, because in a domestic market economy no company, call it Company A, would buy a commodity on the world market for a price higher than Company A can resell it in the domestic market. The very definition of "market" behaviour includes "profit maximizing," which means you stop selling at the point where an extra unit would be sold at a loss and thereby reduce overall profit.

Second, even if Company A did sell a unit at a loss, the company could find a customer, call him Customer B, who would turn around and resell it for a price that is higher than Customer B paid but still below what Company A paid. The same commodity would be bought and sold this way among traders who always have a profit incentive to outbid the end-user until the price reaches what Company A paid.

As for power company price increases that Mr Qin attributes to greed and inefficiency, these have been allowed to enable the electricity generating companies to cover their rising fuel costs. The best way to guarantee fair and efficient energy prices is not to regulate prices but to complete China's marketization of electricity, and extend it to the natural-gas sector, by allowing customers to compete in purchasing energy directly from suppliers who in electricity compete but sell to a single buyer, the State Grid Corporation. The best incentive for a power generating company to keep its costs and prices as low as possible is the automatic loss of customers if the company charges too much.

Robert Blohm, Beijing