THE JOURNAL OF ECONOMIC SCIENCES: THEORY AND PRACTICE, V.71, # 1, 2014, pp. 4-25

ANALYTICAL FRAMEWORKS AND PROCEDURES FOR APPLICATION OF DEMONOPOLIZATION

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Received 12 January 2014; accepted 16 May 2014; published online 15 July 2014

Abstract

This article aims the offering government officials of emerging market economies analytical approaches with a great responsibility and operations towards solution of difficult and vital issues during settlement of demonopolization affairs. The first step for decision-making is determining "a limited market" (this term is used in settlement of competition and anti-trust policy related problems). "A limited market" means a group of goods, production and sale of which have been regionalized, and influence of the existing structure of enterprises upon perspective of competition is evaluated within boundaries of this region. The next step aims at studying importance of demonopolization for development of competition in given market. If demonopolization is necessary for development of competition in the given market, then the next step will be mutual analytical cooperation in the third and fourth stages. The third and fourth stages offer to how and where implement horizontal and vertical sections in the structure of an enterprise in order to reveal individual independent institutions.

Key words: demonopolization, competition, horizontal and vertical section, limited market, government officials.

JEL Classification Codes: D41; 42;43

Demonopolization should be seen as a step from a central planning and management system towards market economy. “Demonopolization” used here defines separation of one entity into two or more ones at different disposals, which are separately managed, for purpose of creation and development of a competition. Unlimited independence of economic activity and productive forces belonging to the private property serves are typical for capitalism and are in favour of the society and can be more efficient only when the competition is developed. Transition of state-owned and state-run enterprises into private ones, creation of sufficiently strong private monopolies interested in unlimitedly raising their products’ prices ignoring customers’ demands and desires, and covering all fields will not bring in a great welfare and opportunities. Only competitive private enterprises are intending to meet customers’ current and expected demands by effectively produced high quality goods and services and introducing them at attractive prices.

Demonopolization should be planned as an action leading to and supporting the privatization. Delays have negative impact on economy involving undue influence of market forces in a period between privatization and demonopolization. This time, long-term distortions dictated by actions acceptable in this period under influence of the established situation, will occur. When implementing demonopolization after privatization, demonopolization becomes sufficiently complicated, because by this time resistance of new entrepreneurs established as a result of privatization gets stronger. The process of privatization itself may get difficult due to further demonopolization perspective. Such a perspective will create an unnecessary uncertainty during evaluation of the state property and hand over the property to those exercising rather tough impact on demonopolization.

With a view to increase incomes from privatization to the state budget, demonopolization may be prolonged or accelerated. Whole demonopolization will expectedly increase state incomes as a result of privatization. At this time, covering of increase in state incomes by that of real social payments stipulated by transition from monopoly to competition, is a significant economic phenomenon [David.J.Teece 1998]. If demonopolization occurs after privatization, property candidates will reduce their requirements and intended demonopolization conditions in connection with uncertainties. When intended demonopolization conditions are not completely clear during privatization, this makes uncertainties more complicated and shakes new proprietors' belief in development of competition.

It'd be better to strive for development of the competition through demonopolization rather than offering an opportunity for economic structures inherited by stagnation years, under the market economy circumstances where there are no dynamics and operating for a certain time within the market economy. As a result, a careful policy pursued for consolidation of companies after the market economy starts to work, may lessen some faults in demonopolization.

Role and determination of limited markets

No matter which term is used, any study related to demonopolization is based on a limited market definition. For instance, no one can ever imagine that, presence of a great number of vegetable sellers would entail fragmentation of a sole enterprise on manufacturing and sale of bicycles; or existence of many food stores on a radius of 200 km may lead to fragmentation of an only one in a small town; or an only food store in the southern part of a small town should be broken up due to existence of many such ones across 1 kilometre to the north. When translated into the language of limited market these examples show that, vegetables are not included in limited market of bicycles, and limited market of food stores is sufficiently localized to cover stores across 200 km; and limited market of a food store in the southern part of a small town incorporates stores in the northern part of the town.

The first step of analysis in this paragraph is to define limited markets where influence of structure of an enterprise on competition is considerable. The limited market is characterized by two significant dimensions – goods and their geography. Of course, the initial dimension is a choice of goods (and services) sold by the enterprise, as well as places of their production. A limited market for each product is complemented by identical products and their substitutes considered by the buyer and which are closer to the relevant product. Each product market matches with a relevant geographic market by adding settlements in other areas of a region to the location of the manufacturing enterprise. Products in these settlements may be alternative for customers in relation to the products of the enterprise.

In limited product market, any independent firm selling products from a point located in a relevant geographic area offers alternatives or substitutes of products to buyers of the enterprise. By doing so, the firm acts as a rival of the enterprise, or on the contrary, companies themselves and goods of which are located outside the limited market of the enterprise do not offer accepted alternatives to the buyers of the enterprise and so, such an enterprise does not function as an active competition source for the enterprise.

Now, we can start choice of goods, to discover limited markets with a particular area, determine a place for offering goods produced by the enterprise. Then we can proceed with determination of relatively less organized but significant limited markets. One category of these markets covers by-products (goods) currently not being sold to customers, consumed by the enterprise itself, but meeting requirements when offered in the market. For instance, the enterprise may possess and control over a park of trucks/lorries for transporting only materials/goods from one point to another within it. In this case, analysis of certain limited market begins from transportation of loads in a region where the points of the enterprise are located and this analysis may be expanded to cover other alternative transports (railway, river transports) as well as to cover other regions possessing transport networks easily rendering services of trucks/lorries offered by the enterprise. Such markets of byproducts may be important for it to be chosen and analyzed. So that, if in these markets there are no offers by other companies, then necessary measures for demonopolization of the enterprise will be vitally important to create a market for other companies to enter (in order to join other domains of business or to compete with sale of the end products of the enterprise).

Before passing to the next stage of analysis, it is necessary to pay attention to practical and conceptual aspects of marking out limited markets for analyzing purposes of demonopolization –dependence on relative prices of products as well as on other prices, of types of products being identical substitutes of goods sold by the enterprise. For example, when low-end computers are offered for prices much higher than cost of production, mean-end ones may directly substitute them; but when the low-end computers are offered for prices closer to cost of their production, mean-end ones will not be able to act as alternatives in the market. As a result, competition degree of low-end computers influencing on prices will change the size of the given limited market. In this case, failure of demonopolization of only seller of low-end computers offered with high prices would be a serious mistake (taking into account existence of a sufficiently high competition by mean-end computers).

One of solutions for conceptual issue of a closed sectorial limited market is to convince customers to prefer substitutes with current prices based on comparison of functional quality indicators and production expenses. To this end, other products of the limited market to which the enterprise’s products belong, are chosen (in case only if these goods are identical substitutes and are hypothetically offered with prices close to production expenses). Or if prices are hypothetically close to production expenses, a decision may be made on functionally identical degree of products for customers.

Prices of other products across the country may influence on the size of the limited market in regard to analysis of approaches to non-nationalization as well. For instance, two borrow-pits located at 100 km to each-other can offer enough substitutes to clients (if forwarding charges by railway and motorway are low enough), but when transport expenses are high, as a mutual alternative, these borrow-pits become irrelative. It is clear that, when determining the limited markets, expected future prices should be fixed considering the level of these markets; moreover, it may be impossible to give precise prediction under emerging market economy.

3. Is demonopolization necessary for development of competition?

The second significant step in analysis of demonopolization is to address an issue on whether to monopolize or demonopolize the enterprise in general. As there are relevant limited markets defined, the following question should be posed in each of these markets – is demonopolization necessary for development of competition? It may be that competition level does not increase sufficiently subsequent to the fragmentation of the enterprise, as the enterprise will face a critical competition with foreign suppliers or new market participants anyway [Brusick P. 2008]. On the other hand, perhaps, the enterprise is a natural monopoly in its own market. In this case, demonopolization will lead to increase of production expenses of the enterprise compared to its initial production expenses. Regulatory measures should be viewed as alternatives to demonopolization in cases where market entry barriers protect the monopolist.

3. a. International trade markets

International trade may limit an effect of demonopolization of the national sector on competition level in the limited market. When transport expenses and import barriers are few and foreign companies compete successfully in the national market, demonopilization will not be able to sufficiently increase the competition in the relevant market.

Barriers in international trade may emerge in different patterns. Import barriers include not only tariffs and quotas; some regulations may facilitate or impede the trade. For instance, foreign vendors usually insist on convertible currencies and the right for trade-oriented transfer of benefits. Foreign manufacturers/producers of goods requiring a distribution network and a technical maintenance need a legal system and a contractual law which will further enhance the opportunities for awarding contracts with local distributors. Regulations on overseas investments may deny ownership rights of certain production enterprises for foreigners. Foreign owners of licenses are less willing to grant licenses to local producers in cases where an intellectual property of a license owner is not protected efficiently. If these regulations are not sufficient, competition of foreign producers will not be sufficiently effective for creation of a competition environment among national monopolies.

“Temporary protectionism” which might seem attractive for countries subject to sweeping economic changes has impact on decisions related to demonopolization. Temporary monopoly prices may manipulate decisions about investment being in effect for a term that exceeds the protectionism period. For example, a temporarily protected monopoly may make investments in high-value productive forces intended for long-term period after the barriers have been removed. When long-term distortions are more, it might be more expedient to demonopolize an enterprise ensuring a given limited market for a product potentially sold in international trade (even if import barriers are seen as temporary). Where the negative effect of the monopoly is not high and imports barriers are in fact are for short-term, demonopolization may be inexpedient. But privatization without demonopolization will cause formation of a new strong group that are keen on making obstacles for free trade and having common interests.

When import barriers and transport expenses are less, foreign suppliers may compete with local enterprises. If this competition is strong in relation to local producers or goods, demonopolization of assets of local enterprises providing the market with goods, will not enhance this competition. Where the import barrier are less, the following products may offer good sale, for instance: various grades of steel, trucks and passenger cars, high power and distribution units, some chemicals and a number of other finished products or agricultural produces [Neven D. 2007]. If the products offered are difficult to sell or there are other barriers to a free import, demonopolization is not encouraged. This is because enterprises selling these products are very likely to fail competition with foreign producers. For instance, retail trade and many professional services usually are not study subjects of the international trade; therefore, companies rendering services to them should not be removed from demonopolization for effectiveness of international competition.

3.b. Markets and free entry

Demonopolization in markets with relatively free entry may intensify the competition to a great extent. Competition exercised in such markets by the existing companies or candidates (companies) may align producers in dual form thereby squeezing anti-competitive start: enterprises may occupy the market even through weakening the leadership of former monopolists; or enterprises may display a real danger of appearing in the market during development of anti-competitive start. Regardless of what mechanism is significant, demonopolization does not directly enhance competition in markets with easy entrance.

In order to emerge and build long-term competition relationships in the market, there are three conditions which have to be followed i.e. access to the market have to be on time; it needs to be large-scale and this should occur when the number of rivals in the market are perceived to be less. Operation in the market with limited "access" may necessiate expansion of the scope of enterprise beyond the relevant market with a view to create new enterprise or new production within the boundaries of the market.

Markets in countries where sweeping reforms are implemented meet these conditions less than those in developed market economy. Even, if particular products are featured by easy production and offer for sale (low initial expenses or sufficiency of a smaller scale production for commercial efficiency of product), availability of "an economic infrastructure" is essential: there should exist sustainable markets for intermediate and major investments including capital, as well as an applicable law on property and a contractual law. If these conditions are not followed in a way as in many countries with transition economy, then access to the market is not expected to sufficiently limit monopoly tendencies in order ensure demonopolization.

A determinant to eliminate difficulties in access to the market in countries with transition economy is technological achievements. Relative production expenses are key indicators in addressing the issue of access of an enterprise to the market. All else held constant, when a new entrant to market employs production techniques requiring less productive forces than conventional, access to market becomes rather easy (against the case where two enterprises have similar production expenses). By following this pattern, if existing monopolies have an outdated and high-cost technology while new rivals in countries with transition economies are ready to import high-efficiency equipment and technology from other countries, then access to the market may be easy and in this case demonopolization will not be needed.

Conditions of access to a market affects decisions related to market segmentation in markets with difficulty of access and where decisions are made on demonopolization of a supplier. If segmentation of the market for demonopolization purposes causes expected changes in its structure, this will be subject to less criticism. This pattern for changes in market structure may be because of large-scale access of new foreign enterprises to the market, or technological changes leading to intangible depreciation of technological equipment in a short period of time.

3. v. Alternatives to demonopolization

Some industries cover range of a product with certain demand in a relevant limited market based on economically large scale so that it creates a natural monopoly where only one enterprise effectively supplies goods for market. Challenge of large production expenses render operations of small producers unprofitable Such industries may cover local distribution of electric power and natural gas, as well as some domains of telecommunications. If a large part of producers are not able to effectively make production due to large production expenses, it is necessary to seek for other means of restriction of non-effecvtive or non-competitive activity except non-monpolization. One such mean is privatization and regulation of the monopoly. Principles of a relevant policy research on these means is not a point of discussion.

4. Fragmentation of monopoly enterprises

When addressing a question on demonopolization of a specific enterprise, the first step of the analysis is to determine how to distribute assets of the enterprise in horizontal and vertical sections. The proposed approach covers basic bilateral relations of existing assets of the enterprise. In order to enjoy an efficiency obtained from the scope and scale of the activity, or take advantages of vertical integration, some assets should be retained within the framework of a single enterprise. Other existing bilateral relationships with the enterprise may be substituted with market-based relations of individually separated participants with no compensation in effectiveness.

If such bilateral relations are adopted, then it will not be difficult to address a question which of the assets should be delivered to a single enterprise, and which assets to an individual enterprise. Sometimes appearance of additional rivals may balance advantages of large-scale economic institutions and vertical integration. We may compare positive features of effectiveness of vertical integration and creation of new markets which did not exist before.

In each enterprise, with a view to transfer its capital investments into byproduct and end product, different funds are operating in cooperation with each other. Interrelations between assets and enterprise funds are divided into two lines – horizontal and vertical. If a product of one participant ("incremental" funds) is a capital investment of another participant ("diminishing" funds), then two types of funds are at vertical relationship with each other [Werden G. J. 2002]. When funds provide the same limited market with products, two types of these funds are at horizontal relationship. For instance, industrial enterprises and distribution network are at vertical relationship, while two industrial enterprises producing the same product in the same town are at horizontal relationship.

In practice, selection of methods of demonopolization is limited to initial investments. For instance, if equipment are concentrated in one plant, then distribution of these equipment among individual enterprises will require either movement of machines from one place to another or long negotiations on importance of joint capital investments in management, real estate and utilities (water supply, sewage, electric power) between individual enterprises. If these extra expenses are high, then those equipment should remain in that enterprise based on the decision of agencies enforcing demonopolization.

4.a. Horizontal section

A decision on demonopolization of properties of funds in a horizontal relationship supplying the same limited market with goods is of primary importance as the structure of properties of these funds reduces competitive activity of private enterprises in a given market. The first step of demonopolization capable of reducing the competition generated by a number of independent supplier- companies is to divide funds into two enterprises.

There is no method of determining the number of independent supplier-companies necessary for effective competition in the limited market. Usually, it is considered that, the higher the number of such companies, the better it is, however, this division accompanying the production lasts until increasing general production expenses in the market. Sufficiently great social efficiency from competition is obtained in the result of substitution of non-regulated monopoly with two rivals (if rivals do not conclude a collusive or open treaty with each other). But a bipolar structure becomes subject to a collusive treaty more frequently than other oligarchic markets. Thus, one can think that, the minimum number of companies with relatively higher advantages of competition should be three. Note that, when analyzing the influence of the number of market participants on competition, a number of other more detailed market indicators may be a more penetrating factor affecting expected tension of competition in a specific market.

In this manner, each market may be demonopolized through horizontal fragmentation of funds of an enterprise into three independent enterprises among three equipotential supplier-companies.

If this fragmentation does not create undesired costs and does not lead to the loss of great scale of economic changes, it is reasonable to proceed further. Plants physically separated from each other and active in a limited market are natural candidates of fragmentation. Production lines physically distinctive in a unity of that enterprise are next candidates of fragmentation. It is necessary to take into account influence of costs spent for realizing physical fragmentation ensuring independent and competitive management and enterpreneurship, and of competition as well.

Permanent costs of each particular production line and of production capacity is a significant factor for production to be large-scale. This factor should be taken into account when calculating proportionality of the number of created rivals and of achieved outcomes. Another significant factor of a large-scale production is vertical echeloning of production stages. Vertical echeloning derives its strength from a number of physically separated production lines or facilities. For instance, a warehouse is similarly used for storage of products of several plants or a workshop prepares tools and paints for a number of production lines manufacturing metal-cutting devices. When effectively separating one stage of production from other stage through vertical division, to put indicated factors of large-scale changes against the number of independent supplier-companies would not be sound.

When horizontally separating the relevant funds, distribution of a state-owned intellectual property among affiliate enterprises should be taken into account. If patents, licenses, drawings and information gathered with experience is not properly distributed, then enterprises may be deprived of legal usage of technology at their disposal or from maintenance of their outdated equipment. Intellectual property may be distributed so that each affiliate enterprise could become an owner of this intellectual property (including patents, licenses, drawings). In this case, this problem could be solved. Intellectual property is owned by physical fund of enterprises.

Intellectual property related to these sales might be introduced on non-discriminatory basis to all affiliate enterprises in order to reduce competition for rendering service for installed productive forces (i.e. technical specifications on the installation and maintenance of equipment).

4.b. Vertical section

Analysis of demonopolization in terms of vertical fragmentation of enterprise funds has major causes which are interrelated. The first, as mentioned above, vertical section may reduce costs of horizontal section through isolating the enterprise from factors such as large scale of the industry. The second, vertical section creates new markets for byproducts and services through the support of fragmentation and new enterprises into the markets of participants and enterprises from different markets. Those fragmented enterprises are able to use byproducts and services. For these byproducts and services approaches cannot be applied even in places supplied on the basis of competition. Naturally, such approaches should be measured from view-point of an efficiency lost due to vertical fragmentation. In order to make thorough evaluation, economic foundation of analysis of above-mentioned vertical mutual relationships should be taken into consideration.

Alternative ways for bilateral relations of funds are market transactions, contracts and integration steps. If implementation of market transactions and contracts suffers a setback in regard to obtaining an appropriate effectiveness, then a authority for demonopolization should bring together the funds in the same enterprise. Analysis of the actual situation defined cases of efficiency loss during desintegration.

Characteristics of purchased and sold products should be exactly described in the contracts of the enterprise. Most frequently, it becomes so difficult and impossible to indicate all parameters of goods that, for instance, an independent judge, court is not able to determine whether requirements of the contract have been met. Sometimes it is difficult to form terms and conditions of the contract under changing circumstances, e.g. in a time of unprecedented demand or unexpected technological progresses [Gellhorm, Ernest and William E.Kovacic 1994]. If the contractual law of the country is not developed in an appropriate way, enforcement of contracts may be more expensive or indefinite than in countries where the contractual law is developed. Therefore, bringing the funds together would be more expedient rather than fragmenting the funds and establishing mutual relations among them in countries of the first type.

Two unique advantages to the integration may not be ignored when addressing issues of demonopolization. These include ease of coordination activities of funds where the cost of "refusals" related to the elimination of "barriers" and coordination of funds operations is too high.

When an enterprise makes major capital investments intended for private products of a supplier firm and using products of another enterprise (without an appropriate contract), "barriers" appear. For example, coal mine may have a road to the railways line. When the road construction is completed, change of transporters may cost much. Meanwhile, coal mining finds a monopolist before it. In this case, option would be to develop another expensive line to another railway. A price fixed by the monopoly railway is not-competitive price, and coal mining may pay only expenses for transportations lower than the optimal number [Anderson, R.J., D.]. If two enterprises have ownership and management on a single property for maximizing profits, then one enterprise would be no obstacle for another and an optimal number of goods would have been sent from one place to another. Therefore, when realizing demonopolization, it is necessary to bring together foundations competing against others, under a single enterprise.

Coordination of activity of funds may be easy if they are managed through single center and owned by the same firm. Efficiency enjoyed due to a vertical integration is much more than those mentioned below. One example is based only contractual relations without consolidation; other is related to relations within a single property. A compressor is an assembled component of an air conditioner for domestic use. Compressors have to conform to certain technical characteristics and be delivered to producer of air conditioner according to planned time schedule. Coordination between a factory producing compressors and an air conditioner plant is ensured through a contract concluded and enforced. Breach of contractual obligations is settled via court. As models of air conditioners would not display frequent changes, it is possible to exactly identify technical parameters and shipping date of compressors. Therefore, parties to the contract will be satisfied, and court may define whether or not requirements of contract on supply are met. In this case, no integration is required. As a result, integrated producers of compressors and conditioners may be vertically fragmented by an agency of demonopolization with no loss of effectiveness.

Another example for vertical mutual relationships highlights advantages of common property. This example refers to an enterprise of blast-furnace and initial steel processing. In steel production, metal should be poured out of blast-furnace in molten form, in time, at a certain temperature with chemical composition. It is impossible to develop comprehensive contract specifying the technological process in a vertical direction, because as requirements of the successive process change very frequently and in an uncertain form, it is difficult to consider these requirements beforehand. Also, it is difficult to identify standards which could ensure effective quality of furnace product and later be tested by the independent judge.

During implementation of demonopolization such stages of production cycle should not be separated from each other.

In cases where integration cannot cause sharp reduction of production expenses, vertically integrated enterprises compete with disintegrated enterprises in markets. For example, some producers of air conditioners produce their own compressors (many producers of air conditioners purchase compressors from other producers). Work of corrugating and box-making machines may be an example for this. Corrugating machine produces a corrugated carton from paper and adhesive. Box-making machines are a set of devices making ready boxes by cutting, sealing and bending corrugated cartons. In most cases, box-making corrugated units and subsequent machines in the technological chain are a property owned by single enterprise and situated in the same building. However, sometimes a certain production belongs to far-located different enterprises and therefore is separated from another production. In light of such arrangement operations are undertaken as market transactions of enterprises operating simultaneously. Each of these enterprises makes efforts to be specialized on production of particular type of boxes. When enterprises at different levels of integration do not feel pressure of production expenses, enterprises established as a result of demonopolization do not require this degree of vertical integration and confine themselves with making corrections in vertical section. This correction in vertical section is sufficient for enhancing competition.

5. Example of demonopolization

Below is an example for demonopolization of a vertically integrated monopoly engaged in retail sale of foodstuffs. This example illustrates in a simplified form the analysis of horizontal and vertical mutual relations among funds, and the influence of large-scale changes of one level on structure of property of another level. The example is hypothetical nature; in practice, barriers to the entry of retail trade of foodstuffs are few enough and demonopolization with detailed estimates is not necessary.

Suppose that, an enterprise “X” owns all retail foodstuffs stores in a city and has storehouses which are not so large. For the sake of simplicity, let us assume that, foodstuffs store sells only “diary” products requiring no special service (i.e. canned products, flour, sugar, rice etc.). Prior to the delivery of foodstuffs to a retail network, storehouses are used for storing them. The enterprise “X” purchases goods from companies and foodstuff importers based on contracts.

Analysis begins with determining limited markets supplied by funds of the enterprise “X” after economic changes. Goods in limited markets may be either in storehouses, or retail sale channels. It is very likely that foodstuffs customers will not go far away for seeking foods, because such trips to remote destinations occur frequently. Therefore, the geographic area of markets where foodstuffs sellers compete is not so large and can be measured across several kilometers. As the transport costs of foodstuffs to a distance of several kilometers are not higher than own value of foodstuffs, a geographical market for the warehouse is limited to a town or a part of a town.

The next step determines whether implementation of demonopolization is necessary. If a market of capital investments (for instance, wholesale foodstuffs market and real estate market) is critical, an effective competition among newly established companies is possible: in such situations, an individually viewed retail-store will not incur undesired costs against the store dominating in the market and lump sum capital investments will be relatively smaller. If an access to a market with large-scale product based on time is possible, then demonopolization is not necessary. But for the sake of example, let us imagine that, a decision on demonopolization has been made.

The next part introduces horizontal and vertical sections in due consideration of mutual relations among funds owned by enterprise “X”. Retail-stores are using storehouses for keeping their stocks, because there is lack of a space in these stores for keeping goods stock. That's why retail-stores require timely delivery of goods from storehouses.

A necessary coordination between stores and storehouses may be achieved through different ways. The same enterprise may own both stores and storehouses, while other alternative enterprises may have only storehouses they may lease to stores. These stores also in turn will undertake operations on storehouses. Independent enterprises owning and governing the storehouses are the third option. Stores merely purchase goods from a warehouse owner acting as a wholesale foodstuffs broker. Choice among these three (and more) options is based upon consideration of provisions of the contractual law and opportunities for making large-scale changes on ensuring the foodstuffs are kept in storehouses.

If the contractual la is not perfect and the store is not sure if it abides by the conditions of the contract, then the store should own its private warehouse which it can manage independently. As the enterprise "X" owns only a part of storehouses in the town, this will have no major impact on the level of competition in goods storage. In another case, if the contractual law is not perfect, but there are a lot of foodstuffs brokers in the town, the store can purchase goods directly from brokers. If one of brokers fails to abide by the terms and conditions of the contract, the store may purchase goods from another broker. A real risk of losing customers may make brokers to keep to contractual obligations.

If there are large enterprises storing foodstuffs at lower prices while storehouses serve for several retail-stores, then two models of mutual relationships are possible: retail-stores independently purchase products from brokers or are grouped by a trade chain. In the first option foodstuffs brokers are very large and may use large storehouses and a sharp competition may occur among them. This competition changes benefit enjoyed by the reduction of goods storage cost to retail stores.

In the second option, each enterprise owns one or several storehouses, as well as sufficient retail-stores in order to achieve superiority over the warehouse level. If the contractual law allows an enterprise to possess both retail and wholesale stores, and foodstuffs brokers do not create sufficient alternatives, then the second option is more expedient.

Finally, the competition level in limited markets was evaluated according to a temporary demonopolization plan. In a given case, such an evaluation is simple enough. Market of warehouse economy has been sufficiently fragmented and gone through competition relationships. When there are several retail stores across each some square kilometres, market of retail foodstuffs stores will be competitive enough. If retail foodstuffs stores are grouped like a chain, loss incurred due to competition between them will drop to minimum during rendering services with different chains to each region.

6. Conclusion

Analysis of demonopolization problems is a necessary component under circumstances of developing market economy; demonopolization should be brought to and follow privatization. Each micro-levelled step in economic changes is connected with other factors able to influence on decision about demonopolization, for instance, severity of capital and real estate markets, level of import tariffs and convertibility of currency.

Counter arguments of analysis of demonopolization reflect outlines of significance of each particular case and state based on a unique complexity. Therefore, a uniform prescription or a formula of demonopolization may not exist. Demonopolization process will be conducted under circumstances of incomplete information and lack of enough time for assessment of received information.

The article with those conditions in mind offers analytical frameworks and procedures to public officials responsible for implementing demonopolization. If these analytical frameworks are applied in each particular case through the support of public officials of countries with emerging market economy, they would be utilized better and have more precise and positive outlines.

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