Kluwer Competition Law Blog

Taking It With a Grain of Salt – China's Commitment To Breaking Up Monopolies

Adrian Emch (Hogan Lovells, China) · Monday, May 30th, 2016

On April 22, 2016, the State Council – China's "cabinet" – released a reform plan for the salt industry.

Salt-imbocca

Edible salt has been subject to a State/government monopoly/-ies in China since the Han Dynasty in around 120 BC. Salt used to be a relatively scarce product, at least in the more inland areas of China, yet very important for the people's diet. Past emperors and governments appeared to think that a State monopoly was an effective way to manage salt production and distribution.

Not so the government in 2016 AC, it seems. With the reform plan, the State Council proposes an overhaul of the current salt regime, which is based on "government franchising": at present, manufacturers, wholesalers and transporters of edible salt need to obtain licenses which are granted only very restrictively; prices and production volumes are determined by the government; and wholesalers and retailers are given exclusive territories.

Over the past years, there has been a steady build-up of research and announcements by the National Development and Reform Commission (NDRC) – one of the industry regulators – on the deficiencies of the current regime (*e.g.*, NDRC's reform proposal in 2016). NDRC is also one of the three Chinese competition authorities which – together with its local offshoot – brought an antitrust investigation against anti-competitive conduct by salt operators (*see* Wuchang salt bundling case). Clearly, NDRC has made known its view that not all is well in the salt sector.

Alegre ma non troppo

The State Council's reform plan aims to liberalize wholesale and retail prices of salt and relax the restrictions on distribution – empowering manufacturers to distribute salt themselves (which was not possible before) and allowing manufacturers and wholesalers to distribute salt throughout the country, not only in designated territories. Also, the plan encourages private investment in existing salt companies (which are essentially State-owned enterprises at present).

However, the reform plan is not as bold as it could be. The basics of the franchising system itself remain in place. For example, the government does not seem to plan to grant additional salt manufacturing/distribution licenses which would allow new players to enter the market.

Overall, therefore, the reform plan is a step to introduce somewhat "more market" into the salt industry, which is in line with China's more general plan to "let the market play the decisive role in allocating resources," as announced in the 3rd Plenum of the 18th Central Committee of the Communist Party in November 2013. Yet at the same time, the reform seems to be piecemeal – the biggest unanswered question remains whether this is just another example of *durchwursteln* or whether it is the first of a series of genuine steps towards full liberalization and fair competition. This question is the same for the salt industry as it is for the direction of China's cross-sector competition policy – and perhaps for China's economic reforms as a whole?

This entry was posted on Monday, May 30th, 2016 at 12:00 am and is filed under China
You can follow any responses to this entry through the Comments (RSS) feed. You can leave a response, or trackback from your own site.