

## NATURAL MONOPOLIES IN UZBEKISTAN

**Aziza Ruziboyevna Ibragimova\***

\*Senior Lecturer,

Department of Business Law, Tashkent State University of Law,

UZBEKISTAN

Email id: a.ibragimova@tsul.uz

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### ABSTRACT

*The paper aims to dispute the issue of efficiency of natural monopolies in Uzbekistan. Despite the implementation of natural monopoly concept in economies of different countries the need for reformation on infrastructural branches is rising. The specificity of natural monopolies is that the minimum costs for them are achieved in the absence of competition, and the demand for their services is inelastic, i.e. little dependent on price changes. The article presents the existing models of reforming natural monopolies. The factors that make it possible to build an adequate model of optimal reform and development of enterprises in this area are highlighted.*

**KEYWORDS:** *Natural Monopoly, Infrastructural Area, Economic Fiction, Competition, Public Utility.*

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### INTRODUCTION

According to the statistical data of Antimonopoly committee of Uzbekistan 2021, 130 business entities are registered in the State Register of Natural Monopolies [1]. These entities provide the country with the basic necessities of life: energy, transportation, gas, water, post office services and at al.

Unfortunately, their efficiency is not so high and some of them in dotation support by the government. Records in the annual financial statistics of 2020, 40 % of the inefficient entities in Uzbekistan belong to natural monopoly sector [2].

Competition law is an exciting area of law, working at the confluence of law and economics, its purpose is to protect the process of competition in a free market economy. Competition is ordinarily a beneficial process, because when firms compete for customers, they are encouraged to produce the best quality products (works or services) at the minimum price, which is good for consumers [3].

Calling the conception of natural monopolies as the economic fiction was grown at the end of XIX and beginning of the XX century in the USA. Due to the tough competition in infrastructural areas manufacturers with the support of some economists created the institution of natural monopolies (DiLorenzo, 1996[4]. To the best of our knowledge, Di Lorenzoi is the one of the first published papers that investigates the real genesis of natural monopolies, using real examples for proving the artificial ‘necessity’ of them.

The aims of this study are (1) explaining the inefficiency of the conception of natural monopoly and (2) evaluating the strategy of step by step reformation the railway system where natural monopoly still exists.

Does Uzbekistan need natural monopoly in the railway system? This is main questions of the manuscript.

In Uzbekistan the issue of natural monopolies has not been researched so far by lawyers or economists. The mindset of ex-Soviet Union countries steel remains the dominance of the government where most developed countries prefer the strong activity of private sector. Public utility sector needs to be transformed to new forms with the help of privatization, public private collaboration and etc. At present Uzbek lawyers and scholars feel a real need to study experience of foreign countries on the matter in order to create effective legislation and mechanisms for creating competitive mood in public utility spheres.

Natural monopolies have been remained as one of the historical institutions of post-soviet countries. The absence of private companies in USSR and the mindset against private property had made the institution of natural monopolies actual. Postal service, energy producing, transportation of oil, oil products and gas by pipeline, production and transportation of electrical and thermal energy, railway transportation, plumbing and sewerage services, air navigation services are steel remaining as the natural monopolies. Most of these services are in dotation of government and the quality of them is not satisfying. Governmental control on the mentioned services does not permit to the private entrepreneurs to make investment on the spheres and not all the regions of the country are provided with public utility services. Even in some cities there is the lack of public utility services. Moreover, the country's legislation does not permit the public sector to participate in improvement of them.

Law No. 815-I "On Natural Monopolies", which is adopted by the Republic of Uzbekistan on August 19, 1999, directly regulates the issues of natural monopolies. National legislation defines the areas in which the activities of natural monopolies are regulated by the state, which include:

- pipeline transportation of oil, oil products and gas;
- production and transportation of electricity and heat;
- Transportation by railways, including railway infrastructure;
- Public postal services;
- Water supply and sewerage services;
- air navigation, airport services.

The existence of competition in such areas is considered unjustified, so the existence of monopolies in these areas is considered appropriate.

Due to the impossibility of this form of alternative competitors, such areas are called as "natural monopolies"[5].

The origin of the concept of natural monopoly is based on the concept of monopoly. In general, natural monopoly is a form of monopoly. The difference is that people have accepted natural monopolies as "natural."

According to the legislation, natural monopoly is condition of the commodity market in which, due to technological features or for economic reasons it is impossible to create competitive conditions in meeting the demand for certain types of goods (works, services).

A natural monopoly occurs when the most efficient number of firms in the industry is one. A natural monopoly will typically have very high fixed costs meaning that it is impractical to have more than one firm producing the good[6].

The activities of natural monopolies are regulated and controlled by the state, and the sectors in which they exist are determined by the state. The subjects of natural monopolies are purposefully established by the state, which "creates" them.

The government directly assists and "sponsors" the activities of natural monopolies. This is because the state considers that the functions performed by natural monopolies in the private sector are not technologically feasible for other entities, or that the existence of another competitor is useless and unjustifiable.

Despite that we recognize natural monopoly as an economic fiction, this institution should still live in the economy of our country. Because strict transformation of natural monopoly sectors can have bad affects.

The following problems may arise while reforming natural monopoly sectors:

First, prices for goods and services may rise;

Second, the need for professional staff is likely to increase.

That's why the step by step transformation is the most comfortable way for creating competition in natural monopoly sectors. Public-private partnership and selling governmental shares to the investors are the best two ways for reformation.

#### **REVIEWS:**

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