

# Monopolized water industry advantages and disadvantages



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### Background and Development

Under the Constitutions of Malaysia, water is the state matter and is one of the human needs to survive. The source of water usually comes from river, lake, wetland, oceans, ground water etc, but without a good filter or water quality controller, we cannot drink water which is unfiltered from the source of water. Every country or state has its own water industry to help in water quality control and water supply to all the resident area, industrials area etc.

By 1950s, Malaya (Malaysia) had 100 treatments plants which produced 195  
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million litres of water to supply the population of 1.15 million daily. Demand for water had increased sharply during the years after independence in 1957, especially in the capital city. To cope with the rising demand for water, Malaya decided to build Klang Gates Dam and the Bukit Nanas Treatments plant in 1959 to end the water rationing and the long period of water shortage. Water development had since figured in Malaysia plans. During the period, the focus was put on urban and suburban supplies. By implementing the 3<sup>rd</sup> Malaysia Plan (1976-1980), which was to redress the inequalities of policies, the water supply received a much needed boost. The number of household in Peninsular Malaysia received treated water in urban and rural areas, and the figure of household raised sharply from 23% in 1950 to 85% in 1990. By the mid of 1980s, due to the rising of the demand for water, there was not only a raising in household area, but also a new demand for water in a new sector – industries. The water industry called for water transfer from state on the other side of range, which was from Pahang to Selangor. At the end of 1999, there were a total of 69 dams in Malaysia. 35 dams have been developed for water supply usage. Dam in the Pedu, Kedah and Terengganu, which had combined storage capacity exceeds more than 20,000 million cubic metres. Terengganu corporatized its water supply industry in 1995, while Selangor, Kuantan and Johor choose to privatize its water supply. Looking through the current 8<sup>th</sup> Malaysia Plan, the development of water resources as in Water Resources Master Plan for the country will be up to 2050 which involves 62 major water projects such as raising the existing dams, build new dams, inter-state water transfer, new

treatments plans, and identifying or exploring area for development (cited in A Glimpse at water supply in Malaysia (n. d.)).

In Selangor and the Federal territories of Putrajaya and Kuala Lumpur, water supply distribution has been privatized. Selangor water supply is control by Syarikat Bekalan Air Selangor (Syabas). Syarikat Bekalan Air Selangor has officially taken over operation and management of Perbadanan Urus Air Selangor, and Syabas is responsible for the water supply distribution and service in Selangor. On July 8<sup>th</sup> 1996, Syabas was incorporated under the Malaysian Companies 1965 to agree with the privatization of water supply services in the state of Selangor. Syabas is ever since responsible on the supply or distribution of water to over 7. 8 million people and 1. 9 million out of it are domestic consumers, commercials, factories, and industrial buildings in Selangor. Syabas operates have a stretch of about 26, 705. 79KM water pipes which were made by ductile iron, mild steel, cement, HDPE, asbestos, cast iron and UPVC ranging around from 100mm - 2200mm diameter. Besides, according to its official website, Syabas owns 1528 of tower reservoirs, suction tank and service reservoirs. Syabas also owns about 589 booster pump stations in Selangor and 121, 871 valves.

The developments of Syarikat Bekalan Air Selangor (Syabas) are Development Plan Submission which is eDPLAS System. Syabas as the water industry in Selangor is responsible to supply clean and high quality water to all the Selangor citizens. After the approval of Syabas to be a monopoly, Syabas proceeded with the development plan. All the applications submitted by developers and consultants were managed and monitored by eDPLAS

system according to Syabas official website. It centralized the database where Syabas can district offices to view the same information. Besides, Syabas introduced Migration as an option for the apartment or condominium to migrate to individual water supply on certain conditions. Consumer can enjoy the tiered domestic rates of water charge which is RM0. 57 for the first 20 cubic metres, RM1. 38 per cubic metre for condominium and RM0. 80 per cubic metre for low cost apartment.

### Characteristics

SYABAS is the only water supply firm to households in Klang valley. The reason is because it has acquired a license from the government which is a legal barrier for it to function as a monopoly. SYABAS also invested a huge amount of money for its capital to start off as a monopoly. For this reason, there have been a lot of water companies trying to develop a business like how SYABAS does but they fail. Besides, the patents and licenses owned by SYABAS and were also the reasons why Syabas remains strong as the only water industry in Selangor. (Yuan, 2013) In this case, the monopolized water industry could use the power of economic profit to get the approval from politician. Politicians' preference will lead to the problem of inequity for the consumers. (World of Economies , 2013)

Since SYABAS is the only water supply firm in Klang valley, this will make it function as the price maker. SYABAS increased water tariffs up to 72% off the normal rate because there has no close substitutes for it. From here, it is making a good profit because they will only keep on providing enough water

supply to be a steady profit producers and be the leader of this industry.

(Selangor Kini, 2013)

Besides, price discrimination is likely to occur when there is a monopoly such as SYABAS. The monopolized company targets and segments group into, for example, low class and high class. In this case, SYABAS charge different price according to different class to maximize it's total revenue. It will charge RM0. 80 per cubic metre for low cost apartment which is low class segment and RM1. 38 per cubic metre for condominium which is high class segment. This is also a pricing strategy from SYABAS because there is no close water substitute for the consumers in Klang valley. (Syarikat Bekalan Air Selangor)

### Benefits

There are several benefits of having a monopoly in the water industry in Selangor, as they are highly motivated and publicly spirited as much as competitive industry. First, let us look at the economics of scale.( (Tejvan R Pettinger) When comparing a monopoly company such as Syabas with other water supply firms, Syabas has the advantage over firms due to their larger market territory and infrastructures. Example, if a smaller firm tries to compete with Syabas, it will have to invest in capital and infrastructures which will lead to heavy investment. By the time these firms start selling their water, the cost will be very high due to the repayment of the initial investment. Most household or office industry will avoid it, since there is an alternative to Syabas which will provide them with a cheaper price since the infrastructure has already been there. In the long run, these companies will face difficulties and may start making losses. It would be best to leave

Syabas to monopolize the market, to avoid wasteful duplication of infrastructure.

The second benefit that can be seen for monopoly is privatization, it was better off for the water supply to be managed by private companies such as Syabas rather than being handled by the Selangor state chief minister.

Before Syabas was created in the year 1996, the Selangor state government was handling the water supply for the state very poorly as there were many issues such as fiscal constraints, inefficient administration, poor standard quality of water and inconsistency supply of water. Nevertheless, both the Selangor state government and federal for Kuala Lumpur and Putrajaya granted Syabas to operate, manage, and distribution on clean water for a period on thirty years. Since then, Syabas has been responsible for distribution water supply over 7 million consumers in the federal territory and Selangor state.

The third benefit of a monopoly is being a successful firm, though being inefficient and dynamic. (Tejvan R Pettinger) Syabas has delivered quality water by complying with government regulatory during the Concession Agreement in 2004. Moreover, Syabas has put in place a mechanism that respond to customer's criticisms of poor quality water within the hour. The firm is also trying to change the public perception of water into instils public that the water is safe for consumption and is clean through its Water Quality Improvement Master Plan. Besides, that Syabas has put a mechanism called Standard Operating Procedures, which they improve their respond to pipe burst, leaks and monitoring and inspection of the Mains and Reservoirs. By

following this sequence, Syabas has fewer breakdowns a, water supply distribution and it shows that Syabas is capable in handling any water crisis.

### Drawbacks

While having a monopolized water industry— Syarikat Bekalan Air Selangor Sdn. Bhd. (SYABAS) brings a couple of benefits to us, there are also a few drawbacks of having a monopolized water industry in our state Selangor.

First of all, when SYABAS is the only permitted water industry to supply water to areas around our region Selangor, it functions as the price maker and charges at a price above its marginal cost. For that, those whose willingness to pay is below the increased price wouldn't value the change. Consequently, these people may choose to use lesser water to cut the cost. Therefore, the quantity produced and sold is allocatively inefficient at the monopoly price. In the context of Economics, when the inefficiency of allocation is presented in a graph, there will be a triangle region which is the surplus consumers and produces would've enjoyed if the allocation is efficient. This triangle region is called the deadweight loss. Besides of the occurrence of deadweight loss, the inefficient allocation of a monopoly would cause a part of the consumer surplus to become the producers' surplus. That being said, the producers of a monopoly will always enjoy more surplus than the consumers do, theoretically.

Furthermore, SYABAS knows well that since they are the only water industry in Selangor, the Selangor citizens wouldn't be able to get any other close substitute (another water supply). Therefore, the company can easily exploit their consumers as the majority of the people would still buy their product

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(water) regardless of the price. A good example for the exploitation of consumers by SYABAS functioning as the monopolized water industry was the imposing of 72 percent increased water charges off the normal rate upon the residents of Pangsapuri Cendana (flat in Shah Alam, Selangor) on 21<sup>st</sup> January 2013. According to Selangor Kini (2013), the water charges were supposed to be RM0. 80 per cubic metre for flats, but SYABAS had charged the residents of Pangsapuri Cendana at RM1. 38 per cubic metre which seemed to be the water charges for apartments or condominiums. SYABAS tried to get away from the issue and refused to address any statement even after the residents involved made a few attempts to contact the SYABAS Officials.

Moreover, a monopolized company usually has less incentive when it is the only firm and doesn't have any competition in its market. SYABAS had been receiving tons of complaint calls from the consumers since the start of year 2013 according to Malaymail Online (2013). It was accused of being 'unprofessional' and 'doesn't give a proper answer' by many consumers as Kishven Sirinezan, one of the consumers, claimed that the call operators of SYABAS had given him the reason of "burst pipes" when he had no water supply for three consecutive weeks. Besides, when a company is a monopoly, there is always a tendency of not taking the consumers' welfare into account. For example, there has been a lot of water crisis happening in Selangor every year. As a monopolized water industry, it is SYABAS' responsibility to make sure there's always enough water supply for every household or industry in Selangor. However, SYABAS doesn't seem to be

focused on solving the problem nor does it try to cut down its cost and charge the consumers at a lower price.

In addition, a monopoly can bring negative effects to households. In SYABAS' case, when the monopolized water industry cannot afford to supply enough water and causes a water crisis at a certain period of time, the daily routines and budgets of people would be severely affected because we cannot drink, cook, and shower without water. Water crisis also brings inconvenience to the people affected. Besides, those who happen to run out of water have to spend extra money on buying mineral water and laundry service throughout the water rationing period.

Last but not least, SYABAS as the only water industry in Selangor can also affect businesses in terms of their productions and profits during a water crisis. When the water supply is in shortage, some affected industries such as food processing industries might not have sufficient water to make enough productions during the time period. Therefore, they make losses. According to MySinChew (2014), 30 companies in Selangor such as Nestle, Monin Asia, and Panasonic (to name a few) suffered from huge losses due to the water crisis earlier this year. Among these 30 companies, Nestle was arguably facing the worst as the company made losses of RM15 million daily from the crisis.

### Conclusion

As a conclusion, a monopoly is a single firm functions as the sole seller in its market without any competition. When it comes down to monopoly, different people have different opinions whether a single firm taking over the market

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is good or bad to the society. Based on the research that we did on Syabas, there are more drawbacks than benefits from the monopolized water industry. According to our research, it was reported that Syabas tried to exploit its consumers, has less incentive to improve its quality of product and services, and brings negative effects to households and businesses during a water crisis due to its inefficiency. For that, there are a few solutions suggested to solve these issues. First of all, since Syabas as the only water industry in Selangor is experiencing an economics of scale, the company should consider on improving the quality of its products and services. The monopolized water industry shouldn't be using low quality materials to build the pipes which distribute the water to us because these low-quality pipes will eventually be broken and cause leakage. When this happens, Syabas has to fix the broken pipes, and this subsequently leads to high-cost repairing. Furthermore, Syabas should frequently monitor the water dam level by investing in proper research and development. By doing so, they can prevent water crisis from happening and take a proper counter-measurement. Lastly, since Syabas is the only water contractor, it is highly unfair and unjustified for the company to exploit its consumer by charging them at an irrational price. For that, Syabas has to review its business strategy by making a proper budget arrangement and take the welfare of Selangor residence into account.

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