Definition of a Monopsony

A monopoly is when there is only one seller in a market and many buyers. On the other hand, a monopsony is when there is just one buyer in a market and many sellers. The word monopsony literally translates from Greek into 'single purchase'.

To clarify this concept, let's take an example. Let's say that a supermarket buys its beef from local farmers. If this supermarket is the only customer of the beef farmers then it is said that the supermarket is a monopsony.

Firms that have monopsony power, (i.e. they are either the only buyer or one of the only buyers in a market) are able to put pressure on sellers to reduce their prices because they are the only firm that sellers can sell their goods to. If the sellers don't accept lower prices for their products then the monopsonist will simply switch to a different seller.

The microeconomic theory of imperfect competition assumes the **monopsonist** can dictate terms to its suppliers, as the only purchaser of a good or service, much in the same manner that a monopolist is said to control the market for its buyers in a monopoly, in which only one seller faces many buyers.

There appears to be a momentum in competition law to prefer a wider definition of *monopsony* as reflected in these remarks included in the reasons for judgment of Justice Goldberg of the federal Court of Australia in **Australian Competition and Consumer Commission and Australian Safeway Stores**:

"In the real world, as distinct from the most elementary textbooks, we find that monopoly power is used to dictate terms other than price and similarly, *monopsony* power is used to extract conditions other than merely the price.... *Monopsony* power is better defined as a buyer's ability to extract terms more favourable to itself than it could extract in a competitive market.... *Monopsony* power (is) the power which enabled a buyer to purchase goods for less than the price that would prevail in a competitive market."

A common theoretical implication is that the price of the good purchased by a monopolist is pushed down near the cost of production. The price is not predicted to go to zero because if it went below where the suppliers are willing to produce, they won't produce. A monopsonist is assumed to be able to transfer economic welfare transferred from sellers to buyers. However in the case of kiwifruit, it is the sellers themselves that are the ultimate beneficiaries of any exercise of monopsony power by Zespri, as all the proceeds of Zespri sale (after costs), excluding commission is paid to suppliers. As a result the mitigation measures in the Regulations focus on discrimination between sellers the activities in which Zespri are involved, and use of capital for other than the core business of the export of kiwifruit.

There is sometimes some confusion between a monopsonist (single buyer) and a monopoly (single seller). In the kiwifruit industry, Zespri is not a single seller of all NZ grown kiwifruit, instead is in competition with suppliers of kiwifruit from other countries (for example Chile), and in competition with summer fruits and fruit alternatives in general. For example, in the eyes of a consumer, bananas or mangos might be perfectly acceptable substitutes for kiwifruit. Collaborative marketers also export kiwifruit from New Zealand.