

CHAPTER 14. ARRANGEMENTS OF INDIVIDUAL MANUFACTURERS RELATING TO MACHINERY IN CLASS (a)

(1) Associated Electrical Industries Ltd.

292. In paragraph 151 we said that two manufacturers of machinery in class (a)—Metropolitan-Vickers Electrical Co. Ltd. (Metro-Vick) and The British Thomson-Houston Co. Ltd. (BTH)—were wholly owned subsidiaries of Associated Electrical Industries Ltd. (AEI); we also said that in each of the years 1951 and 1952 the two companies were together responsible for 37 per cent. by value of all supplies of machinery in class (a) and for over 38 per cent. of home supplies. In view of these facts we felt it necessary to obtain further information about the commercial policy of the two manufacturing companies and the extent to which their influence within the Groups of which they are members is exercised jointly or independently.

293. We are told that historically BTH was "an offshoot" of the General Electric Co. of New York: until the formation of AEI in 1929 the American company had financial control of BTH. Close technical liaison has always existed between BTH and the American General Electric Co. Metro-Vick (previously the British Westinghouse Co.) was established "by the rival American concern, the Westinghouse Electric Co. Effective control from America ceased before World War I, and although a technical interchange agreement continued for many years, British Westinghouse were free to pursue their own line of technical development, and did so". By 1929, when both companies became subsidiaries of AEI, BTH and Metro-Vick "were well established as makers of steam-turbines and heavy electrical plant of markedly different design . . . and each had an important following among the buyers in the world markets". AEI itself has never been American controlled, and the minority interest formerly held by a subsidiary of the American General Electric Co. has recently been disposed of. Since 1929 it has always been AEI's policy "to maintain the autonomy" of the two subsidiary companies "as far as possible". "The executive link with AEI is through the Managing Directors, who are also Executive Directors of AEI. The Executive directorates [of BTH and Metro-Vick] are, and always have been separate and distinct. Until recently . . . liaison between the two companies was maintained by the interchange of nominee Directors." It is now "effected through the Chairman of AEI who is also Chairman of BTH and" Metro-Vick. The factories of the two companies "are entirely self-contained and competitive . . . Preliminary designs and specifications are usually very different in technical features and are prepared independently." The companies do, however, exchange research data and practical experience gained in the operation of their plants, and they work closely together on such matters as the establishment of standards. Each maintains "an entirely separate sales organisation".

294. On the share of the home market for machinery in class (a) enjoyed by the two companies, we are told that this "varies rather widely from year to year. Before, and up to, 1945, it usually exceeded 50 per cent." Since the war Metro-Vick's share "has fallen slightly and the BTH share markedly, because of the limitations imposed by factory capacity". Metro-Vick's works "have been extended by stages and are now up to today's needs, although still further expansion to meet the growing market is in hand. BTH expansion could not be started so promptly but a new large turbine factory is under construction in Northern Ireland. The Companies will make every effort to regain, and if possible pass, their pre-war position in the market." When the limitation of factory capacity has been removed "both companies will be able to offer competitive times for delivery, and the BTH Company

in particular will be able to re-establish the pre-war level of service to its customers, which was largely responsible for its success in securing Home business under conditions of level price. If it did happen that national manufacturing capacity exceeded the total market requirement it would nevertheless be reasonable to expect an increase in the depressed share of the market which the companies have at present; it is common experience that in times of trade recession all competent manufacturers suffer to a similar extent. Any excess capacity would be temporary only, because the demand for electrical generating plant continues to rise at a rate which doubles every ten years."

295. In the light of the results of our investigation of costs and profits (see paragraph 629), neither company appears to be amongst the lowest cost producers of machinery in class (a). Having regard to the share of the market enjoyed by the two companies it would seem reasonable to expect them to be amongst the lowest cost producers, and we therefore asked AEI why they apparently were not. We were told that plant such as that in class (a) "takes several years to produce, and costs on individual sets are apt to vary widely". If "a running average of 3/5 years, made over a period", were taken, AEI believes that the combined cost figures of its two subsidiary companies "would prove to be among the lowest of those achieved by Trade Group members". AEI would not, however, "expect them to be the lowest cost producers of individual items: both companies manufacture every size of class (a) plant, whereas some other companies confine their trade to sizes most profitable to them".

296. We also asked AEI what would be the advantages and disadvantages on the one hand of fuller competition between BTH and Metro-Vick and on the other of a greater measure of rationalisation of their manufacturing resources. AEI has replied that rationalisation of production generally "pays only in the case of 'repetition goods'" and is unsuited to "bespoke products". Rationalisation of the combined resources of the two companies would be inappropriate in the case of steam turbines and steam turbine driven alternators where the companies' designs "differ markedly" from one another, each having "its loyal supporters among buyers; moreover, each of the two producing units is already so large that no saving in cost could be secured by combining them". It is the considered opinion of AEI that "any attempt at rationalisation, or limitation of the commercial autonomy of the two companies could only result in a serious loss of total business. No change of this general policy is contemplated."

297. With regard to the position of the two companies as members of the Groups, we are told that they "compete with each other in every respect except price in exactly the same way that they compete with other members of the price groups, e.g. on design and technical performance, delivery times, service facilities and commercial representation". As both companies "are independently voluntary members of the various price groups, . . . it should be manifest that they see no advantage in being price competitors". As members of the Groups "they act quite independently. When they advocate similar policies, it is on account of like interest and circumstances, not of common direction. It often happens that . . . [their] . . . representatives take opposing viewpoints in Trade Group meetings": while the Chairman "is aware of the broad lines of policy which are being pursued" by each, "he does not give over-riding instructions either directly or indirectly". Representatives of the two companies "consult each other, informally, just as either will, at times, consult the representatives of any other member firm. There is no common direction by AEI and there is no intention to alter this broad commercial policy."

298. Finally we asked AEI to consider what it would expect the effect to be (i) on the share of the home market enjoyed by the two companies and (ii) on the companies' production policy if the Group price agreements were terminated. AEI has replied that "the existence or otherwise of the Group price agreements should not affect the rate of recovery of the shares of Home business taken by the two companies" which are at present "abnormally low". We are also told that "the price agreements have subsisted for many years . . . and there never has been occasion to consider what might be done in markedly different circumstances. Cessation of price agreements, however, would not have any bearing on the organisation of joint resources of the two companies" because there are major differences in design between the products of the BTH and Metro-Vick and "both traditions are needed to satisfy the market".

(2) Arrangements of other manufacturers

299. Some manufacturers have arrangements with other individual companies which relate either wholly or in part to machinery in class (a). Two of these arrangements are relevant to our report. In the first case a British company in 1948 entered into a technical aid agreement with an associated foreign company whereby it receives designs, technical data and information and working drawings against payment of a fee, and accepts certain restrictions on the use of designs; each party also agrees not to supply in the other's specified exclusive territory without the other's consent. The British company has told us that it entered into the agreement in order to preserve and develop its business; it says that the agreement has enabled it to obtain export orders which might otherwise have been placed abroad.

300. The second case concerns an agreement between a United Kingdom manufacturer and a foreign manufacturer under which the British company receives the right to the use of certain designs, test and manufacturing data and experience against payment of an annual fee, and undertakes not to make certain types of equipment except to those designs and not to export machinery of the types concerned without the foreign manufacturer's consent, which consent is to be sought only in exceptional cases. The British company has told us that its production of this class of machinery has never been on a large enough scale to permit the financing of extensive research work; the agreement makes the foreign manufacturer's research available against payment of a fee. The British company is strongly of the opinion that, even with the restriction on exports, the agreement is a valuable one, not only to the company itself "but also to the country generally", particularly because of the high quality of the machines it is thus enabled to produce. The British company "is one of the largest employers of labour in the district and without the . . . Agreement, it would have been quite impossible to maintain in employment nearly as much labour as has been done in recent years".