

machines in this class. Since the table takes into account all relevant Group and IEA agreements, whether or not they control prices, it should not be taken as providing an accurate measure of the extent of price competition (see paragraph 345).

330. There are three agreements between the signatories of certain Group agreements and makers of related plant. These are:—

- (i) A joint agreement between signatories of the Dynamo and Motor Agreement, the Alternator Price Agreement and the Generator Price Agreement on the one hand and the makers of certain oil engines used for driving alternators and D.C. generators on the other, providing for reciprocal discounts* on certain types of machinery and for general co-operation between signatories; the agreement does not cover exports.
- (ii) An intercontracting agreement between the signatories of the Electrically Driven Rolling Mill (Electrical Parts) Agreement and members of the Steel Works Plant Association providing for discounts† on the sale of certain electrical equipment to or through members of the Association.
- (iii) An intercontracting agreement between signatories of the Electrically Driven Winding Engine (Electrical Parts) Agreement and the Winding Engine Makers Association, which provides for a discount or handling charge on sales of winding engines to the electrical machinery manufacturers, who are usually the main contractors, or of electrical equipment to the winding engine makers.‡

CHAPTER 16. ORIGINS OF THE AGREEMENTS: NOTIFICATION AND COMPENSATION FOR TENDERING EXPENSES

(1) Origins

331. The first agreement relating to machinery in class (b) was introduced in 1913. It dealt with the prices of small motors and generators. A notification agreement for large generators and motors followed shortly afterwards. The early arrangements did not operate without interruptions, and it is only since 1930 that the home agreement covering small motors and D.C. generators has been in continuous operation; most of the other current Group agreements were introduced at various times between 1930 and 1946.‡

* See paragraphs 391 to 395 for an account of the discounts on sales of generators. As the oil engine maker is generally the main contractor, the discounts on sales of oil engines to generator makers are of little practical importance.

† See paragraph 400 for details.

‡ The following agreements have been in continuous operation from the dates mentioned:—

- Dynamo and Motor Agreement, 1930
- Dynamo and Motor (Export) Agreement, 1940
- Marine Motor and Generator Agreement, 1946
- Alternator Price Agreement, 1935
- Generator Price Agreement, 1936
- Large Dynamo and Motor Agreement, 1935
- Large Electric Machine Agreement, 1942

The Electrically Driven Rolling Mill (Electrical Parts) Notification Agreement appears to have been in operation since 1924 and the Electrically Driven Winding Engine (Electrical Parts) Notification Agreement since 1932. Although not formally completed until 1952, the price agreements (Electrically Driven Rolling Mill (Electrical Parts) Agreement and Electrically Driven Winding Engine (Electrical Parts) Agreement) for rolling mill and winding engine equipment had been in existence in skeleton since 1943 and had been observed in practice before 1952.

The Railway Traction Electrical Equipment Agreement and the Trolleybus Electrical Equipment Agreement (which do not provide for notification or price arrangements—see paragraph 417) were introduced in 1951 and 1950 respectively.

The first arrangements of The International Electrical Association Ltd. (IEA) were introduced in 1930, and the first of the Association's separate notification agreements in 1936 (see paragraphs 75 and 79).

(2) Notification

332. We have already indicated the importance of the central notification of enquiries and orders in the development of arrangements amongst manufacturers of electrical machinery and have discussed, in relation to the machinery in class (a), the existing objects of a notification scheme (see paragraphs 58 and 165 to 167). These general considerations apply equally to the notification of most individually important enquiries and orders for machinery in class (b); but since a great deal of machinery in this class is sold in small lots and can be ordered without invitation to tender, the procedure of notification is not practicable in all cases. In this chapter we consider only the extent to which provisions relating to notification exist in the agreements covering machinery in class (b), and any significant differences in the form of the notification arrangements.

333. Most enquiries and orders for the small machines which constitute a high proportion, by value, of the total sales of machinery in class (b) are not subject to notification arrangements. Under the Dynamo and Motor Agreement and the corresponding export agreement most enquiries and orders of a total value of less than £5,000 for the home market or £2,000 for export are not notifiable; most home and indirect export enquiries and orders for one or more alternators of a total capacity of less than 250 kVA are also exempted from notification under the Alternator Price Agreement,* and there is no agreement which covers direct exports of these machines. The limits in these three agreements have been varied from time to time in the light of market conditions.† For small marine motors and generators there are no notification provisions. This is also true of traction equipment supplied in the home market because, the Groups have informed us, home enquiries for this equipment are usually made public. This case apart, practically all enquiries and orders for large machinery are notifiable under Group or IEA agreements. With the minor exception of a certain special type of motor there is no overlap between the Groups and the IEA in this respect. On the other hand there are certain ranges of machinery which are not covered by any export agreement at all; the IEA is generally concerned only with exports of the largest machinery, and the Groups have not in all cases made agreements to cover, or to cover fully, exports of the smaller machinery which is outside the IEA's scope. Thus, direct exports of alternators of less than 2,000 kVA are not subject to any agreement; and in the case of motors and D.C. generators there is a gap between the upper limit under the Group export agreement (500 h.p. or 485 kW) and the lower limit under the IEA agreement (1,500 kW).

334. Where notification is provided for, the procedure is similar to that for machinery in class (a) described in paragraphs 165-167.

(3) Compensation for Tendering Expenses

335. The origin and purposes of arrangements for compensation for tendering expenses have been described generally in paragraph 58, and as applied to machinery in class (a) in paragraphs 168 to 174. Much of the machinery in class (b) is comparatively simple in design, and heavy tendering costs

* Under the three agreements mentioned there is special provision for notification of all enquiries and orders for a few special types of machine or machines with particular equipment.

† Until 1954 the exemption limit under the Dynamo and Motor (Export) Agreement was £7,500.

are incurred only for the larger machinery or for complex schemes. Compensation arrangements similar to those for machinery in class (a) are applied at present only to certain large machines in class (b). Under three Group agreements there are compensation provisions for large alternators and motors and the electrical equipment of electrically driven rolling mills and winding engines supplied in the home market; for large alternators and motors they also apply to some export enquiries. The IEA agreements do not provide for compensation, but ad hoc arrangements are made in respect of some export orders for hoisting and rolling mill equipment and rotating condensers which are notified under the Association's notification agreements. Before 1951 there were also compensation arrangements under the Alternator Price Agreement and the Generator Price Agreement. The arrangements were withdrawn from the Alternator Price Agreement because the increasing ratio of orders to enquiries had reduced the costs of tendering in relation to sales. Although we are told that large enquiries for small machines may also involve heavy tendering costs, there are no arrangements for compensation in such cases.*

336. The Groups' arrangements for compensation for tendering expenses apply to orders for machines of 2,000 h.p. and over covered by the Large Dynamo and Motor Agreement, and to motors above 500 h.p. covered by the Electrically Driven Rolling Mill (Electrical Parts) Notification Agreement or the Electrically Driven Winding Engine (Electrical Parts) Notification Agreement. In the first case the Groups have told us that 2,000 h.p. is the point at which "special design work in general begins and where orders tend to be spasmodic". In the case of rolling mill and winding engine equipment the manufacturers say that they are expected to submit complete engineering schemes which "generally include machines of large size together with a mass of auxiliaries, control gear and operating devices, all essential to the complete installation".

337. The amount of compensation to be paid out by the successful tenderer is calculated in accordance with a formula† based on the output of the machine. As we have explained in paragraph 178, in the Group agreements for machinery in class (a) the amount payable by the successful tenderer is added separately in arriving at the prices to be quoted by tendering signatories to the agreement. The prices in the schedules in the three Group price agreements for larger machinery in class (b), however, are deemed to include the amount of compensation and no specific addition is made.‡

338. Although the IEA compensation agreements were suspended in 1942, compensation is nevertheless sometimes paid where *ad hoc* price arrangements are made through the Association.§ Up to 1952 compensation arrangements were frequently made for hoisting equipment, but they have been less frequent since that date. Compensation has been agreed on about half the enquiries notified since 1952 under the Notification Agreement for Rolling Mill Equip-

* The Groups have quoted a case where, because of different interpretations which could be put upon the enquiry and because alternative contractors for associated equipment were involved, an enquiry for 200 motors meant the quotation of 6,000 different prices by one tenderer.

† $\text{£}Cx\sqrt{\text{kVA or B.H.P. per 1,000 r.p.m.}}$, where C varies from 1.5 to 3.5 for different types of machine.

‡ A signatory of the Large Dynamo and Motor Agreement who is not a signatory of the Large Electric Machine Agreement—the price agreement for similar machines—is thus under obligation to quote a price which includes the amount of compensation, but his quotation may, in fact, be the same as, greater than or less than a quotation from a fellow signatory who is also a signatory of the price agreement.

§ See paragraphs 81 and 82 for an account of the former compensation arrangements of the IEA.

ments. Where *ad hoc* arrangements are made in the IEA, the amount of compensation to be paid by the successful tenderer is calculated in most cases by using the formulae contained in the suspended compensation agreements.

339. As in the case of machinery in class (a), the manufacturers have not attempted to relate the amounts paid in compensation to tendering expenses actually incurred or to make any calculation of those expenses. As a percentage of total business under the relevant agreement, compensation paid by successful tenderers is in all cases very small; over the four years 1949-52 it varied from one half of one per cent. for rolling mill equipment to one per cent. for large dynamos and motors. The Groups concerned with this class of machinery have said that "it has been found through practical experience over the years that the amount included to cover the cost of tendering is on the average adequate, although in certain cases, where preliminary engineering work has to be undertaken before the tender is made, the amount included is often not sufficient".

340. Until 1951 the Groups concerned with machinery in class (b) followed the same practice in distributing compensation as those concerned with machinery in class (a) (see paragraph 168). The agreements covering large alternators, large motors and electrical equipment for rolling mills and winding engines were amended in 1951, and compensation under these agreements is now distributed as follows:—

Number of Tenderers	Method of Distribution of the Fund
One	All to the administration fund.
Two	One third to the unsuccessful tenderer. Two thirds to the administration fund.
Three	One third to each unsuccessful tenderer. One third to the administration fund.
Four (or more)	Equally among the unsuccessful tenderers.

341. The principal differences in current practice for class (b) as compared with class (a) are that the successful tenderer does not participate in the distribution, and that only actual tenderers—as opposed, in the case of class (a), to notifiers of the enquiry or, in some circumstances, all signatories of the agreement—receive shares directly. On the other hand, all signatories can in theory benefit indirectly if compensation is paid into the administration fund. The manufacturers say that this rarely happens; generally all the four signatories of the agreements for electrical equipment of rolling mills and winding engines tender for each enquiry.

342. Under the *ad hoc* arrangements made through the IEA the amount of compensation is divided equally between all the parties to the arrangement including the successful tenderer.

CHAPTER 17. THE PRICE ARRANGEMENTS

(1) Home Market

(A) General

343. Most machinery in class (b) is subject to one or other of the price agreements under which the signatories bind themselves not to sell at prices lower than the minimum prices provided for in the agreements. These