PREM19

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ECONOMIC POLICY

(Price Commission & Competition Bill)

(Part 1)

PART 1 255 MT

Confidential Filing

Future of the Price Commission.
The Competition Bill.

ECONOMIC POLICY

MAY 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~9.5.79~~							
~~11.5.79~~							
~~14.5.79~~							
~~15.5.79~~							
~~14.6.79~~							
~~21.6.79~~							
28.6.79							
—ENDS—							

PREM 19/35

Dd 533270 5M 2/78 8362633 JET

PART 2 begins:-

CBI (Methven) to CAW 3.7.79

PART 1 ends:-

Trade to Industry 28/6/79

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC (79) 1st Conclusions, item h.	10.5.79
E (79) 2	10.5.79
E (79) 1st Meeting, Minute 1	14.5.79
E (EA) (79) 8	11.6.79
E (EA) (79) 3rd Meeting, Minute 1	14.6.79

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed AWayland Date 27 October 2009

PREM Records Team

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

From the Secretary of State

R. 28/96

RESTRICTED

Andrew Duguid Esq
PS/Secretary of State for Industry
Ashdown House
123 Victoria Street
London, SW1

28 June 1979

Dear Andrew

COMPETITION BILL

My Secretary of State has seen the letter of 26 June from the Minister of Agriculture about the minutes of the E(EA) discussion on 14 June, and he has asked me to write to confirm that the Bill will include a provision enabling him to veto an investigation by the Director General of Fair Trading into anti-competitive practices. He also understands that the Minister for Agriculture's concern on this point having been met, Mr Walker is willing to accept that the powers on anti-competitive practices should extend to the various agricultural commodities mentioned in Schedule 7 of the Fair Trading Act about which he wrote to my Secretary of State on 11 June.

I am copying this letter to the Private Secretaries to members of E(EA) and to Martin Vile (Cabinet Office).

Yours sincerely

John Symes

J M D Symes
Private Secretary

RESTRICTED

CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

CST
FST
MST(C)
MST(L)
SIR D WASS
SIR L AIREY
MR F JONES
MR MONCK
MR ST CLAIR
MR NORTON
MR WICKS
MR RIDLEY

Economic Policy

27th June, 1979

Dear Andrew,

COMPETITION BILL : NATIONALISED INDUSTRIES

Tha Chancellor has asked me to write to you in his absence in Tokyo to seek the formal policy approval of your Secretary of State, as Chairman of E(EA), for the treatment of nationalised industries in the Competition Bill. As you know, this was discussed at a meeting with your Secretary of State, the Secretary of State for Trade, and other Ministers at No.11 Downing Street on 25th June. This letter sets out what was agreed.

Ministers agreed that the Bill will contain a new provision for Ministers to refer to the Monopolies and Mergers Commission (MMC) any question relating to the abuse of monopoly position (including specifically questions of costs, efficiency, and service to the consumer, but excluding cash limits and financial targets) by nationalised industries and analogous bodies. The MMC will be required to report on the question put to them within six months (which may be extended if necessary), and the order-making powers of the Fair Trading Act will be available, with the exception of the power to regulate prices. The Fair Trading Act order-making powers are not likely to be directly relevant to questions of efficiency (though they may well be for other abuses of monopoly positions) and in such cases we shall have to rely on pressure following publication of an adverse report. There would be no provision for standing references.

Andrew Duguid, Esq.,
Private Secretary to Secretary of State
for Industry.

CONFIDENTIAL

Although powers on these lines are not very different from those currently available under the Fair Trading Act (the Fair Trading Act powers have never been used) they are somewhat more appropriate, since they will allow questions of efficiency to be tackled directly rather than indirectly. More important, Ministers felt that they would carry greater political credibility because they are new, but they agreed, particularly in the light on the non-use of comparable Fair Trading Act powers, that Mr. Nott should be able to announce during the Second Reading Debate on the Bill in mid-July two or three candidates for immediate reference. But it was also agreed that these new powers must not bar Ministers from taking other steps to deal with the nationalised monopolies; where dismantling the monopoly was possible, this would often be the preferred course.

Steps are being taken separately through Sir Lawrence Airey's Nationalised Industry Policy Group to identify candidates for early reference. In future, Ministers might invite suggestions from a variety of other sources as well, eg the DGFT, thought these would not be made public. It was suggested that the NCC might also be consulted informally. The NIP group would however continue to act as a sieve.

Ministers decided that the Nationalised Industries' Chairmens Group would be consulted about the proposed legislation, but would have no role in selecting or monitoring references under these new powers; indeed, it was felt that they would not in any case want one.

At the meeting, the Secretary of State for Energy argued for deferring legislation, with a view to building on the role of the Comptroller and Auditor General and the Exchequer and Audit Department. But the meeting agreed on the above proposals.

I am copying this letter to the Private Secretaries to the Secretaries of State for Trade and Energy, and to the Chief Secretary, the Minister of Transport, and the Parliamentary Under Secretary of State at the Scottish Office, who were present at the meeting, and to the Private Secretaries to other members of E(EA). Further copies go to officials who were present at the meeting, ie Durie at the Department of Trade; Dempster, Department of Transport; Jones, Department of Energy, and Williams in your Department. I should be grateful for confirmation by close of play on 29 June that Sir Keith and other members of E(EA) are content.

Yours ever,

MH

(M.A. HALL)

OCO

Reference PI 1513

PRICE COMMISSION SEVENTH QUARTERLY REPORT UNDER THE PRICE COMMISSION ACT 1977, FOR THE PERIOD 1 FEBRUARY TO 30 APRIL 1979

Attached is a copy of the above Report which is being published today at 11.00 hours, and a copy of the Price Commission Press Notice.

It is understood that the Price Commission will not be holding a Press Conference

K A Partridge

Mr K A Partridge
CP2/Trade
Room 2701
211 5226
Millbank Tower

26 June 1979

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26th June 1979

PRICE COMMISSION REPORT: FEBRUARY TO APRIL 1979

The Price Commission's report* for February to April 1979 published today (Tuesday) reviews price increases during the period, the value of its regional organisation and the exercise of its discretionary powers.

Price Increases

The report says that the period witnessed an increased rate and size of notifications of price increases by large enterprises and an upward movement in the Commission Index.

The Index was greatly influenced by the round of oil company notifications whose full effects would not be immediately felt in retail prices.

"Nonetheless", the Commission says, "the trend of notified price increases emphasised to us the importance of scrutinising notifications and offering consumers some assurance, as inflationary pressures increase, that price increases will not be automatic nor exceed what is necessary. As always this activity had its greatest importance in sectors where competition is limited."

.../...

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* Price Commission report for the period 1 February to 30 April 1979 (HC 123; HMSO £1.50; ISBN 0 10 212380 2).

Regional Organisation

The report also stresses the value of the Price Commission's regional offices:

- in support for investigations and examinations, they have been able to collect thoroughly but rapidly information and comment from different parts of the country.

- in their representative role, they have been a source of information about local pricing problems which could easily be unknown to a body with only London based staff.

- in dealing with complaints and enquiries, they have often been able to secure the correction of mistakes in the pricing of goods and services to the benefit of supplier and customer.

Discretionary Powers

The quarter saw the passage of the Price Commission (Amendment) Act 1979. The Act ended the Commission's obligation under the Safeguard Regulations 1977 to allow interim price increases during investigation to maintain basic profit margins on products but retained its power to give discretionary price increases based on the criteria of the 1977 Act. It was obliged to take account of increased costs of imported raw materials in deciding whether to allow an interim price increase.

The Commission records "the 1979 Act obliged us to examine the case for interim price increases much more carefully than did the former Safeguard Regulations.

"With the latter we had to do no more than ensure that an arithmetical calculation had been correctly performed.

"Under the 1979 Act, unless we thought it right to allow the whole of a notified increase at the outset of an investigation, the case for an interim increase was before us throughout the

.../...

investigation and was constantly re-evaluated in the light of the information emerging from our inquiry".

Notifications of Price Increases

Both the number of price increases notified by large manufacturing and service enterprises and the amount involved were larger than in any period since the new Commission began in August 1977. The monthly average number of notifications rose to 426 from 348 in the previous period, while the amount notified was £793 million against £721 million in the previous quarter.

Commission Index of Notified Prices

The increase in the Commission index of notified prices over the six months to April expressed as an annual rate was 13.0 per cent, the highest point since the new Commission began in August 1977. The twelve months increase (which generally reacts more slowly to changes) was up to the levels of early 1978.

The official indices (the Retail Prices Index and the Wholesale Price Index) are now showing the first signs of a similar upward movement.

Frequency and Size of Price Increases

The Commission has undertaken a further analysis of the frequency with which price increases are being notified. In its report for August to October 1978 the Commission stated that a sample of consumer products had shown that the annual average frequency of price increases notified to the Commission had dropped from between 1.9 and 2.4 in the four years to July 1977 to 1.2 a year in the year to July 1978. An up-dating of the analysis - for the 12 months to January 1979 - shows that the frequency has remained steady at just over 1 notification a year.

The Commission says it has always held that the reduction in the frequency of price increases is an important part of the process of stopping the inflationary psychology that can produce instability and inefficiency, since frequent price changes, even if small, reduce the incentive to reduce costs, make planning impossible and, by producing uncertainty in the minds of the consumers,

.../...

contribute to the wage-price spiral.

With the up-dating to January 1979 the analysis has been extended to cover also the average percentage size of the price increases. This shows that the average size of each increase also fell in the first year of the new Commission and has remained steady in the latest period, but here the changes are far smaller compared with the frequency. The average size of each increase in the 12 months to January 1979 of 6.3 per cent compares with 7.1 per cent in the 12 months to January 1978 and 6.8 per cent to January 1977.

However, the average total increase over the year - frequency multiplied by size - has fallen by about a half between the year to January 1977 and that to January 1979, from 14.3 to 7.6 per cent. About seven-eighths of the fall was contributed by the reduction in frequency and only one-eighth by reduced size.

One possible explanation of this might be that in this period firms have tended to wait until a suitable size of increase is due before notifying increases rather than notifying whatever increase they could justify at fixed intervals.

Fresh Food Index

The Commission index of fresh food prices rose by 5 per cent in the three months to April, almost entirely due to increases in the cost of vegetables. Potato prices remained stable but, with short supplies at the end of the winter, prices of cabbage and brussel sprouts rose by about 70 per cent. Compared with April 1978, fresh food prices have risen by 17.1 per cent, with beef and vegetables the main causes.

Complaints About Price Increases

The regional offices dealt with 5,800 complaints in the quarter compared with 6,000 in the previous quarter. But the number of enquiries rose from 1,600 to 2,000.

Price increases for beer, petrol and water rates gave rise to the most complaints; and in the early part of the quarter sales

.../...

of tobacco by metric weight also gave rise to confusion.

Among the complaints there were about 300 from small businesses on such matters as charges for burglar alarm rental and maintenance, laundry prices and repairs to office equipment.

During the three months the regional offices were able to achieve 376 price reductions. Some examples of reductions achieved were:

> A reduction from £2,800 to £1,900 in the price of a custom-built sliding folding office partition to conform more closely with an earlier estimate.
>
> An abatement from 20 to 15 per cent in a proposed increase by a laundry, saving a county council, for example, an estimated £6,000 on laundry charges this year.
>
> The reduction from 13½p to 8½p in the price of packs of table salt by a chain of supermarkets.

Commission Members

During the report period two Commission Members who had been on the Commission since 1 August 1977 resigned. They were Mr Noel Bond-Williams, who has become Chairman of Remploy Ltd, and Mr Anthony Colman, who stood as a Parliamentary candidate in the General Election.

NOTES TO EDITORS

1. Since the end of the Report period the Prime Minister has announced that the Government intends to abolish the Price Commission: a Bill will be presented to Parliament.

2. Since the end of the Report period the Secretary of State for Trade has cancelled the investigations into the price increases of RHM Bakeries Ltd and Allied Bakeries Ltd. All other current investigations and sectoral examinations are proceeding but no new work is being undertaken by the Commission.

3. The Regional Offices closed to the public on 1 June 1979.

Price Commission
Market Towers
1 Nine Elms Lane
London SW8 5NQ

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

Price Commission Report for period 1 February to 30 April 1979
Published by HMSO, 25 June 1979

Signed ~~A.Wayland~~ Date 27 October 2009

PREM Records Team

Economic Policy

Cabinet Office
70 Whitehall London SW1
Telephone 01-233 8550 5826

Chancellor of the Duchy of Lancaster

14 June 1979

Dear John,

The Chancellor of the Duchy of Lancaster wrote to your Secretary of State on 8 June about the Competition Bill.

We have since spoken about the great difficulties faced by Parliamentary Counsel and your officials in preparing this Bill for Legislation Committee as early as the meeting on 21 June. The Chancellor of the Duchy has asked me to say that in view of these difficulties and also the likelihood that parliamentary time cannot be made available for the Second Reading of this Bill until late July, he is now agreeable to Legislation Committee deferring their consideration of this Bill until the meeting on 27 June.

I am copying this letter to the private secretaries of the recipients of the Chancellor of the Duchy's letter.

Yours sincerely,

C M Egerton

C M EGERTON
Assistant Private Secretary

John Symes Esq
Private Secretary to
Secretary of State
Department of Trade
1 Victoria Street
LONDON
SW1

OLO

2pps

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

CONFIDENTIAL

R 15/6

The Rt Hon John Nott MP
Secretary of State for Trade
Department of Trade
1 Victoria Street
London SW1H OET

11 June 1979

Dear John,

COMPETITION BILL: NATIONALISED INDUSTRIES

In your letter of 6 June to Geoffrey Howe about the treatment of the nationalised industries in the Competition Bill, you suggested that you should extend your proposed action to all statutory monopolies listed in Schedules 5 and 7 of the Fair Trading Act, including the agricultural marketing boards. I certainly agree that there should be proper surveillance of the activities of the marketing boards but I suggest that the action you propose is unnecessary and undesirable in respect of them since they are already effectively covered by other legislation.

Under the Agricultural Marketing Act, 1958, there already exists a series of safeguards against possible abuse by the boards of their monopoly position. In particular, a Committee of Investigation is required by section 19 of the Act to consider "any complaint made to the Minister as to the operation of any [agricultural marketing] scheme". Where the Committee finds that "any provision of a scheme or any act or omission of a board ... is contrary to the interests of consumers ... or is contrary to the interests of any persons affected by the scheme and is not in the public interest" the Minister has power to take corrective action. This safeguard (which is supplemented by a Consumers' Committee also provided for in section 19) has worked well for many years and I hope you will agree that there is no need for a new and parallel system of dealing with complaints.

These safeguards relate to items 3, 9, 11, 12, 14 and 15 in Schedule 7 of the Fair Trading Act. There remain three other items for which I am responsible - raw cane or beet sugar (item 1), sugar beet (item 2) and sale other than by retail of refined sugar (item 10).

/The difficulty on these ...

The difficulty on these commidities is that there are very strong arguments for retaining the power to make references in the hands of Ministers. On sugar matters it is necessary to balance various wide-ranging aspects of Government policy. First, we have responsibilities under the Sugar Protocol of the Lomé Convention and these can only be implemented commercially through Tate and Lyle; these matters are of major importance in the relations of the EEC and the UK with the developing countries. Secondly, Tate and Lyle and the British Sugar Corporation operate within the Community's sugar regime and it is that regime which determines the conditions under which sugar is imported and refined and beet is grown and processed. Decisions about the regime are of course negotiated by the Government in Brussels. Thirdly, the industry, on both the cane and beet sides, is having to undergo substantial changes as a result of the need to adapt to Community membership and in particular the cane sugar industry is having to reduce capacity.

While therefore it is essential that UK policy should take proper account of competition considerations and the needs of the consumers and users, it is also vital that due account should be taken of the requirements of our relations with developing countries, the constraints imposed and negotiating opportunities offered by the EEC and all the regional and employment considerations that arise particularly on the restructuring of Tate and Lyle. This does not mean that the industry should be exempt from investigation by the Monopolies and Mergers Commission should appropriate circumstances arise. But it does, I suggest, make it imperative that Ministers retain control of the power to make references in their own hands.

I am sending copies of this letter to E Committee, the Minister of Transport and Sir John Hunt.

Peter

PETER WALKER

Chancellor of the Duchy of Lancaster

Cabinet Office
70 Whitehall London SW1
Telephone 01-23XXX 5826

8 June 1979

Dear John.

I understand that you are thinking of enlarging the Competition Bill by introducing a provision to give the Director General of Fair Trading new powers in respect of nationalised industries and also to strengthen his powers to seek information about unregistered restrictive trading agreements.

I have no particular comment on the policy aspects of what is proposed, which of course is a matter for our colleagues on E or E(EA) Committees, to whom I understand you and Sally Oppenheim have written, but I would be concerned if there were to be any delay in preparing it for introduction. The latest we should take this Bill at Legislation Committee is the meeting on 21 June if we are to ensure, as I think we must, that the Bill has made reasonable progress by the long Recess. The Parliamentary timetable will be under great pressure in the autumn and we must avoid adding to the load in any way we can. I would suggest that the new provisions are only included if the Bill can still be made ready in time for it to be considered at that meeting.

I am copying this letter to the Lord Chancellor, the Attorney General, the Secretary of State for Northern Ireland, the Chairman and members of E and E(EA), the Minister of Transport, and the Chief Whip, and to First Parliamentary Counsel and to Sir John Hunt.

Yours ever

Norman.

The Rt Hon John Nott MP
Secretary of State for Trade
Department of Trade
1 Victoria Street
LONDON SW1

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

7th June, 1979

CF - what is X ? Tim See Flag. ACAM 13/6

Dear John

COMPETITION POLICY AND THE NATIONALISED INDUSTRIES

I am writing to let you know that I think we need a collective discussion on this subject before you take your Competition Bill to Legislation Committee. There is, on examination, an important conflict of objectives here and I do not think that the discussion at E Committee on 14th May led to an agreement on exactly how they should be resolved.

One objective is that those nationalised industries which have a sufficient degree of monopoly to be "price-makers" should be, and be seen to be, under strong pressure to be efficient and minimise costs. To the extent that sponsor Ministers cannot find ways of increasing competition, we need to find other effective ways of exerting that pressure. We also need to reconcile disengagement from individual pay negotiations with the need to prevent these industries from exploiting their monopoly position for the benefit of the work force.

The second major objective is that the nationalised industries' financing needs should be controlled so that their impact on the PSBR does not jeopardise our overriding commitment to reduce the burden of direct taxation which hobbles the entire economy. The annual sums involved in price increases of the major industries are very large - of the order of £500 million each for the Post Office and for Electricity. I therefore welcome your assurance in your minute of 31st May to the Prime Minister that the Monopolies Commission would not involve itself in questioning financial objectives or cash limits.

X

However I do not think this assurance, even if made public, will prove reliable in practice. In theory it is possible to argue, as our predecessor's White Paper

The Secretary of State for Trade,

argued in relation to the Price Commission, that the investigation should deal only with the question whether the attainment of greater efficiency, within the relevant year, could enable the financial target (or cash limit) to be achieved with lower prices than would otherwise be charged. But in practice investigations rarely identify such opportunities and tend instead to generate pressures for lower prices irrespective of costs and so - in effect - for additions to the PSBR which restrict our Budgetary room for manoeuvre. Finally of course there may be situations (eg. in gas) where the price needs to be set at a particular level, irrespective of the precise level of current costs, in the interests of proper use of national resources. I know that under your proposals it would be open to Ministers to resist such pressures but it would be politically difficult to do so. I am concerned that we may in the event recreate some of the problems of the split responsibilities and contradictory instructions to the nationalised industries from different arms of Government which arose with the Price Commission. This danger would be increased if the Director General is to have discretion to make references about prices as well as about uncompetitive practices.

For all these reasons I think it is clear that a collective discussion is needed.

It is not easy to suggest lines on which this conflict of objectives might be resolved. But it may be that we are overdoing the parallel with inefficiency by a monopolist in the private sector where PSBR considerations do not arise. There the ultimate remedy envisaged is either a directive to cease the anti-competitive practice or to lower prices. The former remedy is unlikely to be relevant in the case of a public sector monopoly, except at its fringes, if sponsor Ministers have been unable to stimulate it by increasing competition. The latter remedy, quite apart from its PSBR impact will be a much weaker incentive to improve efficiency in the public than in the private sector.

This analysis suggests that a different and more direct remedy for inefficiency is needed in the public sector - for example that sponsor Ministers should press ahead with fixing and publishing efficiency and cost targets of the kind I mentioned in ~~E(79)5~~ 24/5. The Chairmen of Boards would be held to account for achieving these. But the Monopolies Commission might have a useful role in monitoring them and perhaps in providing a basis for deciding on the level of such targets. For this purpose we may need to think in terms of a new form of reference explicitly and exclusively directed at the question whether a monopoly is reasonably efficient or unnecessarily costly. Such a reference would be made by a Minister rather than the Director General. On this basis it might even be desirable for the major monopoly industries such as the Post Office, the energy industries including coal (despite their competition with each other), and perhaps British Rail or part of it to be the subject of some sor of standing reference. A report on each might eventually be made at intervals of say 2 or 3 years and in particular just before the setting of a medium-term financial target, so that it could be supplemented - but not of course supplanted - by efficiency targets for the same period.

I emphasise, however, that these are tentative thoughts which need to be worked - and argued through. I have set them out not as firm proposals but to support my view that we need to discuss the difficult policy questions raised by your legislative proposals. That would also provide an opportunity to discuss any outstanding points we need to consider on the private sector side.

I am sending a copy of this letter to the Prime Minister, other members of E Committee and to Sir John Hunt.

Geoffrey

(GEOFFREY HOWE)

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

CONFIDENTIAL

MBM

From the Secretary of State

R 6/6

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

6 June 1979

Dear Geoffrey.

COMPETITION BILL: NATIONALISED INDUSTRIES

We need to settle urgently how nationalised industries are to be treated in this Bill.

We propose in any case to give the Director General of Fair Trading (DGFT) new power to investigate and to refer to the Monopolies and Mergers Commission (MMC) anti-competitive practices by individual firms which will enable him to deal with some kinds of abuse of monopoly power by nationalised industries as well as by private sector companies. For example, it would cover discrimination in supply or in prices which had the effect of distorting competition between trade customers of a nationalised industry, and also restrictions which affect competition in the supply of ancillary equipment. It would not, however, catch abuses which are simply unfair to consumers and other customers without restricting or distorting competition. These can include both specific cases of unfair pricing and the general level of prices charged by the monopoly. Such abuses in the private sector are, of course, covered by the Fair Trading Act, but the nationalised industries are currently excluded.

contd/.....

A proposal has also been discussed between officials that, in addition to the new powers on anti-competitive practices (which will apply to the public and the private sector alike), we could by order amend Schedules 5 and 7 of the Fair Trading Act so that the Director General would not be precluded from referring the listed nationalised industries to the MMC. Although such an amendment would give the Director General power to make any kind of reference to the MMC, we would announce publicly that we did not wish him to refer the monopoly situation itself the the MMC and that in framing any reference on prices he was to make it clear that the financial targets set by Government would not be called into question. We would also make it plain that if the Director General were to step beyond these limits the reference would be vetoed.

I understand that you are unhappy about this proposal, although I believe it to be the simplest and most direct way of achieving our objective not least because, once again, it places the nationalised industries on the same footing as the private sector. However, to try and overcome Treasury concern which I feel may be a little over-cautious, I have considered an alternative of achieving the same result by statutory means with an additional clause in the Bill, and you will wish to examine whether giving the Director General additional powers in this way will meet your anxieties.

The alternative embodied in this clause would provide the Director General with a new power, separate from the Fair Trading Act, to refer to the MMC abuses of monopoly (including prices) by the statutory monopolies. This would <u>not</u> enable him to call in question the monopoly itself, but only to have particular results of the monopoly investigated. Furthermore it could be specified in the legislation that such investigation should not question financial objectives set by the Government. Thus if prices were the subject of a reference the MMC's attention would be focussed on the industry's costs: if they concluded that, by greater efficiency, the industry ought to be able to charge lower prices and still meet its financial objective, their finding would put the Government in a position to take appropriate action (which might be to intervene on prices, or to negotiate directly on the question of greater efficiency, or possibly even to raise the financial objective). If we adopted this course, it would be useful also to give the Director General powers to seek information from nationalised industries in preparing for a reference. This would enable him to build up a useful expertise on questions of costs and efficiency where it is difficult for Departments to get sufficient information from their industries.

I think there is a good case for taking new powers on either of these lines. The Prime Minister announced our specific intention to strengthen the Director General's powers to deal with abuse of monopoly by nationalised industries, and there will be disappointment if we confine the power to anti-competitive practices. And for the purposes of nationalised industry policy I see advantage in gradually building up a capability in the MMC and the OFT to monitor costs and efficiency. We can do this in such a way that Government policies are fully safeguarded and so avoid the problems that have been met with on Price Commission investigations. But colleagues will want to consider the implications, and I should welcome their views.

If we did take this new power to deal with abuse of monopoly, I assume that it would cover all the statutory monopolies listed in Schedules 5 and 7 of the Fair Trading Act, including the agricultural marketing boards. It would be difficult to justify making a distinction between these and the listed nationalised industries.

I am sending copies of this letter to members of E Committee, the Minister for Transport and Sir John Hunt.

Yours ever

John.

JOHN NOTT

T/MP

Reference .... Econ Pol.

PRICE COMMISSION 7TH QUARTERLY REPORT UNDER THE 1977 ACT, FOR THE PERIOD 1 FEBRUARY TO 30 APRIL 1979

I enclose for information an advance copy of the text of the Price Commission Report for the period 1February to 30 April 1979, the seventh quarter covered by the operations of the Price Commission since it was formed under the 1977 Act.

The Report should be regarded as Confidential until the day of publication, which is proposed, subject to the agreement of the Secretary of State, to be on 22 JUNE 1979. The Act (Article 3(2)) provides for the Secretary of State to lay quarterly reports before each House of Parliament.

We should be glad to hear from recipients of this minute of any textual errors which might be considered for amendment before printing, by close of play on 8 June But it should be noted that there is no provision for the Secretary of State to amend reports submitted by the Price Commission, though textual or typographical errors may be drawn to their attention before printing.

K Partridge.

K A PARTRIDGE
TRADE/PP1c
Rm 2701 M/T
211 5226
1 June ~~May~~ 1979

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Department of Employment	PS/SOS Mr R Hitchin
Department of Environment	Mr P Iredale
Department of Energy	Mr R G Tucker Mr G H Hadley (FNI) Mr M Kaye
Department of Industry	Mr S N Burbridge
Department of Trade	~~PS/SOS~~ PS/MOS (CA) PS/PUSS (CA) PS/Secretary Deputy Secretary Mr H J Blanks (PTFD) Mr J H Chapman
PP	~~Mr G W Roberts~~ Mr A J Lane Mr S G Linstead Mr M J Day Mr R M Upson Mr M Belton Mr D T Smith Mr D J Burbridge Mr G R Wilson
CCC	Mr J L Clark Mr M C McCarthy Mr A Gray Mr A P Vinall
FT	Mr D N Byrne Mr D R Durie Mr J Sumner
ECS4C	Mr. J H Rickard
INF	Mr N Gaffin Miss A Jenkins
PUB	Mr W D Clifford Mr C R Kabraji

Price Commission
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From the Chairman

The Rt Hon John Nott MP
Secretary of State for Trade
1 Victoria Street
LONDON
SW1H OET

30 May 1979

Sir

In accordance with section 3(1)(a) of the Price Commission Act 1977 I have the honour to send you the attached report by the Price Commission on the way they discharged their functions from 1 February to 30 April 1979.

Yours sincerely

C Williams

C C P WILLIAMS

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CONTENTS

1 Review of the Quarter

During the quarter the Commission's new investigations covered gas and electricity, oil and water, beer and bread. It would be difficult to find a spectrum of subjects of greater current interest and comment. In dealing with them we were particularly aware of our responsibility to be guided by the criteria of the Price Commission Act 1977[1] and to make decisions and form conclusions in their light alone.

That has been our responsibility since August 1977, but it was thrown into relief by the onset of the General Election campaign at the end of the period and the consequent increased interest in all matters to do with prices. We thought it particularly important that our work in this period should be clearly and directly derived from the criteria of the 1977 Act.

Besides the new investigations launched during the period we completed 5 other investigations and 3 sectoral examinations. Work continued on three other sectoral examinations.
In the work of this period the Commission were particularly aware of the contribution made by the Regional Offices. This has been expressed first through their essential support and survey work for investigations and examinations. Those undertaken during the quarter, combined with the weather, placed a particularly heavy burden on the Regional Offices in this respect, but they showed their ability to collect information and comment thoroughly but rapidly from different parts of the country. Second, the Regional Offices continued to play their valuable

[1]Hereafter referred to in this Report as "the 1977 Act". Unless otherwise indicated reference to "sections" in this Report are to those of the 1977 Act."

representative rôle. They have been a source of information about particular local pricing problems which could easily be unknown to a body with only London-based staff. Finally, in continuing to look into complaints and enquiries the Regional Offices showed themselves able again to deal with a wide range of individual price problems. It has been particularly noticeable how often the Regional Offices have been able to secure the correction of mistakes in the pricing of goods and services, to the benefit of supplier and customer.

The quarter saw the passage of the Price Commission (Amendment) Act 1979[2]. The Act ended the Commission's obligations under the Safeguard Regulations 1977[3] to allow interim price increases during investigation to allow firms to maintain a basic profit margin on the products concerned. Under the 1979 Act the Commission retained their power to give discretionary interim price increases, based on the criteria of the 1977 Act. They were also given a particular obligation to take account of increases in the cost of imported raw materials in deciding whether to allow such an increase.

In our previous Report we indicated our proposed approach to allowing discretionary price increases. We would add to that only by recording that the 1979 Act obliged us to examine the case for interim price increases, much more carefully than did the former Safeguard Regulations. With the latter we had to do no more than ensure that an arithmetical calculation had been correctly performed. Under the 1979 Act, unless we thought it right to allow the whole of a notified increase at the

2 Hereafter referred to as "the 1979 Act".

3 The Price and charges (Safeguard for basic profits) Regulations (S1 No 1282)

outset of an investigation, the case for an interim increase was before us throughout the investigation and was constantly re-evaluated in the light of the information emerging from our inquiry.

The period witnessed an increased rate and size of notifications and an upward movement in the Price Commission Index, described in Chapter 4. The Index was greatly influenced by the round of oil company notifications, whose full effects would not immediately be felt in retail prices. Nonetheless the trend of notified price increases emphasized to us the importance of scrutinising notifications and offering consumers some assurance, as inflationary pressures increase, that price increases will not be automatic nor exceed what is necessary. As always this activity had its greatest importance in sectors where competition is limited.

2 ORGANISATION, STAFF AND PROCEDURES

Membership

During the period two Commission members resigned. Mr Noel Bond-Williams, who had been a member since 1 August 1977, resigned following his acceptance of the Chairmanship of Remploy Limited. Mr Anthony Colman, who had also been a member since 1 August 1977, resigned in accordance with his contract, at the time of nomination as a parliamentary candidate for the General Election. Their advice and membership of investigation and examination panels proved extremely valuable during the time they served on the Commission.

Staff

The approved staff complement for the Commission was 560. At the end of April 1979 the total number of staff in post was 536, 422 at Headquarters and the remainder in the Regions.

Organisation and Procedures

No significant change in organisation or procedures was made during the quarter.

3 ACTIVITIES IN THE PERIOD 1 FEBRUARY 1979-30 APRIL 1979

Investigations

Investigations begun

During the period of this report the Commission notified the Secretary of State for Prices and Consumer Protection of their intention to carry out the following investigations:

Esso Petroleum Co Limited - oil and petroleum products

BP Oil Limited - oil and petroleum products

Bass Limited - own manufactured beers

Bass Limited - the supply of beer and other products in managed houses

Whitbread and Company Limited - beers, wines, spirits, soft drinks and ciders

Whitbread and Company Limited - supply of wines, spirits, soft drinks, ciders, food and accommodation in managed houses

Welsh Water Authority - water services

Electricity Council on behalf of the 12 Area Electricity Boards in England and Wales - the supply of electricity and connection and associated services

British Gas Corporation - the supply of gas and related services

BP Oil Limited - oil and petroleum products (2nd increase)

Shell UK Limited - UK sales of manufactured petroleum products and associated services

RHM Bakeries Limited - bread sold in Great Britain

Allied Bakeries Limited - bread and rolls sold in Great Britain

All the investigations related to notified price increases and were initiated under section 4 of the 1977 Act.

The final dates given for reports to be submitted to the Secretary of State were:

Esso Petroleum Co Limited	16 May 1979
BP Oil Limited	16 May 1979
Bass Limited	21 May 1979
Whitbread and Company Limited	23 May 1979
Welsh Water Authority	23 May 1979
Electricity Council on behalf of the 12 Area Electricity Boards in England and Wales	14 June 1979
British Gas Corporation	30 June 1979
BP Oil Limited (2nd increase)	8 July 1979
Shell UK Limited	8 July 1979
RHM Bakeries Limited	4 August 1979*
Allied Bakeries Limited	11 August 1979*

* During May 1979 the Secretary of State for Trade exercised his powers ~~of veto~~ under section 4(3) of the Price Commission Act 1977 to cancel these investigations. The reports will not, therefore, be submitted.

Interim price increases

At any time during an investigation the Commission may allow an interim price increase up to the amount originally pre-notified, under section 4(5) of the 1977 Act. Under the 1977 Safeguard Regulations made by the Secretary of State under section 9 of the Act, an interim increase could be mandatory. However, currently, interim price increases are governed by the Price Commission (Amendment) Act 1979, under which the Safeguard Regulations ceased to have effect for increases notified from 17 January 1979. The Commission retain the power to grant discretionary interim increases; under the 1979 Act they have the duty to take particular account of increases in the cost of imported raw materials when deciding whether to allow such increases.

Details of the interim increases allowed for investigations under section 4 of the 1977 Act during the period of the report are given in the following table.

1 Notifying Enterprise	2 Increase Notified	3 1977 Safeguard Invoked Where Applicable	4 Interim Increase Allowed	5 '4' as percentage of '2'	6 Yield from '2' £m	7 Yield from '4' £m
BP Oil Limited	6.902%		6.902%	100	117.9	117.9
Esso Petroleum Company Limited	1.166p per litre		1.166p per litre	100	146.6	146.6
Welsh Water Authority	13.9%		10.02%	72	12.8	9.23
Bass Ltd [Beer and other products in managed houses]	7.90%		4.88%	62	25.18	15.55
Whitbread and Company Ltd [Beers, wines, spirits, soft drinks, ciders, food and accommodation in managed houses]	8.82%		4.52%	51	16.4	8.41
The Rugby Portland Cement Co Ltd	10.9%	3(1)(b)	2.21% [8.50% previously allowed]	20 100 Total	6.6	1.4 6.6 Total
Whitbread and Company Ltd [wholesale level beers, wines, spirits, soft drinks and ciders]	5.65%		3.36%	59	27.4	16.29
Bass Ltd [wholesale level own manufactured beers]	7.94%		4.18%	53	37.83	19.91

1 Notifying Enterprise	2 Increase Notified	3 Safeguard Invoked Where Applicable	4 Interim Increase Allowed	5 '4' as percentage of '2'	6 Yield from '2' £m	7 Yield from '4' £m
BP Oil Limited (second investigation)	4.951%		4.951%	100.	82.12	82.12
Shell UK Limited	6%		6%	100	113.4	113.4
British Gas Corporation						
Gas tariffs	8½%		2%	24	139	32.71
Reference levels for renewal prices for contract gas	8½%		8½%	100	64	64

The Commission also allowed interim increases to the Electricity Council on behalf of the twelve Area Boards in England and Wales in respect of charges for connection and associated services and for all tariffs except those relating to domestic charges.

Investigations completed

The Commission submitted reports on the following investigations which were completed during the period:

BOC Ltd

The Daily Telegraph Ltd

Perkins Engine Company

The Rugby Portland Cement Company Ltd

United Biscuits (UK) Ltd

With the exception of United Biscuits (UK) Ltd, all these reports were published during the period. The recommendations and main contents of the reports may be summarised as follows:-

BOC Limited

On 6 October 1978 the Gases Division of BOC Ltd notified its intention to increase the prices of some gases sold in cylinders. The proposed increases amounted to weighted averages of around 9.7%, and were expected to produce £3.5m in additional revenue over twelve months.

At the time of the investigation BOC supplied about three quarters of the UK market for atmospheric gases, and estimated its market share of cylinder gases to be about 80%. In addition BOC was virtually a monopoly supplier of acetylene, with over 90% of UK sales. The prospects for new entrants into the industry were not promising and any general increase in competition was unlikely.

The Commission recommended that the notified increases in charges for gas, cylinder rental and the fixed charge for each transaction should be wholly restricted for a period of twelve months until 6 October 1979.

The issue of cost minimisation was seen as the most significant to have emerged in the investigation and therefore the cumulative effects of the problems noted by the Commission were given considerable weight in determining the recommendations.

Whilst BOC was found to be an efficient producer of gases, the following areas of potential cost savings were identified by the Commission, who considered that if necessary improvements both in controls and in staff and labour efficiency were achieved the cylinder business would not only generate an operating cash flow surplus but also make a substantial cash contribution to the central funds of the group.

BOC did not make use of unit cost data. The Commission believed that the company should be able to measure the real movement of its costs relative to output.

The investigation had shown that the company's line-based organisation with functional advice from Headquarters had not been the best way of controlling the business, and that the current decentralised system tended to create conflicting aims between the centre and operating units, making it difficult to control costs.

On pricing, the Commission noted that the three parts of BOC's tariff were not closely related to specific identifiable elements of costs and that some groups of customers might be influenced to order over-frequently, thus creating extra costs for BOC.

A specific area of concern in pricing was the steep gradation in the gas charge as between small and large volume cylinder customers which appeared to penalise small users. The Commission felt there was some scope to obtain a higher return on sales to certain larger customers.

BOC was found to take pride in the quality of its service, even to the extent of delivering short notice orders which could result from poor planning by customers. Delivery problems were created and facilities could be strained by this, and it was the Commission's view that the extra costs thereby generated should be charged to the customer who caused the problem.

The Commission endorsed BOC's proposed development of its customer collect facilities which would be in the interest of consumers. The company would also benefit because of reduced involvement in distribution to small volume customers.

BOC was suffering substantial losses of cylinders despite the activities of a security force costing over £1m which had been set up to deal with the problem. In 1978 the unexplained net losses were around 30,000 cylinders which represented about £1.7m at replacement value.

Also there appeared to be a long standing and deeply entrenched illicit market for gas. BOC's estimate of losses was £1.5m to £2m annually not including the £1.7m cash requirement for cylinder losses. The Commission considered that management, labour and customers would need to co-operate closely, and tighter controls would have to be instituted, if losses were to be materially reduced.

In the year to 30 September 1978 the Gases Division had made a loss of almost £1m from factoring more than £30m of welding goods bought from Engineering Division. On an arm's length basis the Commission would have expected the Gases Division to have made a profit from this business.

The Commission believed that there was a need to reduce the cost of management, which had become too high relative to levels of output. The total number of salaried staff had increased by more than 10% between September 1976 and September 1978, although there had not been a corresponding growth in the business. The company agreed that there were important economies to be made to contain or reduce unit staff costs, and the Commission noted that the level of labour turnover could allow a reduction in employees without the need for redundancy.

The 1977 and 1978 pay settlements for salaries and wages had included elements of guaranteed production bonuses made unconditional on actual achieved production. The Commission saw no evidence that the productivity agreements had been constructed to lead to gains in efficiency at unchanged levels of production. In view of the scale of the pay settlements the Commission hoped that both management and unions would feel an urgent and continuing responsibility to review standards of operational efficiency to improve productivity of all grades of staff.

The Commission were not able to find the proposed price increases justified by reference to the relevant criteria of section 2 of the 1977 Act. However they expressed their concern to support and encourage the measures which BOC were taking to improve efficiency, and indicated that if these made strong progress, they would be prepared to advise the Secretary of State to exercise his discretion in BOC's favour in the event of an application from the company for a price increase during the period of the restriction.

The Daily Telegraph Limited

The Daily Telegraph Limited group of companies, referred to as DTL, is controlled by 140 Trustee Company through the Telegraph Newspaper Trust.

On 16 October 1978 DTL notified a weighted average increase of 4.483 per cent to be applied as an increase of 1p, from 9p to 10p, in the cover price of The Daily Telegraph. In the light of developments during the investigation the Commission allowed a discretionary increase of the full amount as from 22 January 1979.

The Daily Telegraph had over 60 per cent of all quality newspaper circulation. Its 10p cover price compared with 15p for the others. It had 9 per cent of display and 37 per cent of the classified advertising revenues of all national newspapers. Cover price revenue represented about 40 per cent of total revenue.

The Daily Telegraph employed about 2,600 people, of whom about 1800 worked in the production departments. Previous reports on the newspaper industry had found a considerable degree of overmanning; DTL's estimate of overmanning in its production departments was 12 per cent.

The printing presses, the most critical area of production, were prone to considerable down-time. A recently introduced analysis of breakdowns was to be used as part of a programme of preventative maintenance. In the publishing rooms further modernisation was planned, a move supported by the relevant union at national level.

Newsprint represented a large part of costs and DTL had taken positive steps to reduce the quality used.

In 1977 DTL produced an outline development plan for the installation of new technology equipment. DTL said that its introduction had been delayed by alterations to, and refurbishing of, its premises, the likelihood of long and drawn out negotiations with unions and chapels and DTL's decision to concentrate on bringing into operation two additional printing presses. Electronic facsimile equipment for transmitting copy to Manchester had been delivered in June 1978 and DTL hoped to introduce the new system during 1979.

DTL devoted considerable thought and effort to selling display and classified advertising which had enabled it to maintain a leading position in the advertising market.

Industrial relations in Fleet Street had been notoriously bad for a generation; the Commission recognised their complex nature and the apparent intractability of many of the problems. Within the unions representing employees at DTL there were 45 chapels, each with a high degree of autonomy. There was no central personnel or industrial relations department. The Deputy Managing Director and three senior managers dealt with industrial relations matters. Selection of non-craft production workers appeared to be the sole prerogative of the chapels; management exercised authority in selecting craft and white collar workers. Management was obliged to negotiate separately with each chapel even if the subject was of wider concern. An outline of a coherent industrial relations strategy involved DTL's commitment to proposals for a redundancy scheme, and improved pensions and death benefits linked with introducing new technology and reduced manning.

The estimated trading profit of The Daily Telegraph for 1978/79 was £2.61 million compared with £5.10 million for 1977/78 and £3.63 million for 1976/77. Newsprint and ink costs, and wages and salaries costs accounted for over two-thirds of total costs. On a historic cost accounting basis ROCE was forecast at about 16 per cent for 1978/79. In view of the considerable age and nature of certain of the assets represented by capital, the historic cost return on capital employed was not suitable for comparison with other businesses.

DTL estimated that its bank borrowings would amount to some £5.4 million at 31 March 1979. A major influence on borrowings was expenditure on the acquisition and modernisation of premises prior to their intended sale and leaseback. DTL's forecast for 1979/80 showed a substantial increase in trading profit percentage margin and a substantial reduction in bank borrowings.

In March 1978 shares in The Daily Telegraph Limited held by the Berry family interests had been transferred to the Telegraph Newspaper Trust. Control remains in the hands of the Berry family, but family interests are specifically excluded from any benefits of that Trust.

DTL advised the Commission that they did not see a need for a formalised and continuing system of business planning nor a formal system of budgetary control. However, the Commission considered that the size of DTL and the recent transfer of ownership to a trust made it important that attention be given to significant improvements in financial reporting.

The Commission felt bound to draw attention to inefficiencies, particularly overmanning, but expressed their endeavour to do so in a spirit of positive encouragement towards improved practice. The Commission shared DTL's view that the best way forward was the achievement of a comprehensive development incorporating the introduction of new technology. This approached called for a sustained effort by management and a whole-hearted and positive commitment from the chapels, unions and all who work at DTL. The Commission concluded that there was an urgent need for the conduct and co-ordination of negotiations to be concentrated in one senior management post, and on the union side, for the number of chapels to be reduced, and for the Federated House Chapel to play a more active role.

The Commission recommended that there should be no restriction on the notified increase. The notified increase was implemented on 22 January 1979 under section 4(5) of the 1977 Act. The Commission also recommended that the cover price and advertising rates of The Daily Telegraph should not be further increased during the period of twelve months beginning 16 October 1978.

In reviewing any future price increase notifications the Commission would bear particularly in mind the efforts made by DTL to improve industrial relations, operational efficiency and financial control.

Perkins Engines Company

Massey-Ferguson-Perkins Ltd (MFPL) is a wholly-owned subsidiary of Massey-Ferguson Holdings Ltd (MFH) which in turn is owned by Massey-Ferguson Ltd, a company incorporated in Canada.

On 5 December 1978 the Perkins Engines Company Division of MFPL notified a weighted average increase of 10.63% in the prices of engines and parts. The Commission were obliged to allow the whole of the notified increase under the Safeguard Regulations 1977 (SI 1977 No 1282).

Perkins' diesel engines which range in size from 50 horsepower (hp) to 300hp have four types of application, automotive, agricultural, industrial and marine. Of the 205,000 UK built engines in 1978 41,000 were sold to Massey-Ferguson in the UK and a further 41,000 to UK third parties. The remainder were exported.

Of the 41,000 UK third-party sales of engines 58% were for industrial application and 38% for automotive application, the remainder being for agricultural and marine use.

Perkins had a substantial share of the UK industrial diesel engines market, supplying about 80% of engines for material-handling equipment, 40% for compressors and 30% each for generating sets and construction equipment.

The diesel engine market had good growth prospects but the prospects for a specialist engine manufacturer such as Perkins were less easy to determine. There had been some grouping of vehicle manufacturers for the purpose of producing diesel engines so that the opportunities in the automotive sector were somewhat limited.

The good growth prospects had fostered a highly competitive situation and Perkins' future success would depend on its research effort and on its ability to fund the developments arising from it.

Perkins regarded direct variable profit as the critical factor in determining prices. The company stated that the Group's policy on sales to associated companies was one of arms-length transactions. A comparison indicated that the margins of Massey-Ferguson business were a little below those of UK third-party business; Perkins attributed this to the larger volumes sold to Massey-Ferguson. Exceptions to the general policy of arms-length pricing had been the Hanover and Canton (Ohio) operations. Perkins had sought to ensure the viability of both operations by minimising prices to them during the start-up phase.

Some countries had imposed restrictions on the import of built engines. Perkins had met this problem by adopting a policy of local manufacture of engines from kits of imported parts. This had resulted in a decline in the number of built engines exported by Perkins but it had been more than compensated for by the increase in the number and total value of engine kits exported. The Commission believed that this policy had been of benefit to both the company and the UK balance of payments.

Perkins did not produce a truly standard engine. Although there were only 10 basic engine types there were over 4,500 variations. The Commission emphasised the need for Perkins to pursue with vigour a programme of eliminating unnecessary variations.

Some of Perkins' machine tools were over 30 years old. On the basis of the ten-year life assumed by Perkins over 47% of the plant had been fully written off and was still in use. Moreover the plant layout was far from ideal.

Labour relations were good with a relatively low level of time lost due to stoppages. The company assessed the efficiency of labour utilisation by a comparison of standard hours and clocked hours. Some inefficiencies were caused by non-labour factors such as plant breakdown. The Commission thought that there was scope for improving labour efficiency, possibly with some incentive element.

Capital investment had fallen in real terms since 1976. The product development and capital re-equipment necessary in the future would require substantial funds. One problem was the likely inability of Massey-Ferguson Ltd to fund the forecast investment.

The net profit before taxation expressed as a percentage of sales had averaged under 6% for the five years ended 31 October 1978. The return on capital employed on a CCA basis over the same period had been either negative or very low. Perkins' cash flow indicated that it would not be able to fund its forecast capital expenditure for 1979 without recourse to Massey-Ferguson Holdings Ltd.

Perkins had not made any application for Government grants in recent years. In view of the magnitude of the capital investment that the company requires, the Commission considered that this was an avenue that would need to be explored for the future.

The Rugby Portland Cement Company Limited

The Rugby Portland Cement Company Limited is the holding company for 24 trading subsidiaries which together constitute the "Group". Within the Group, the UK Cement activities (RPC) includes The Rugby Portland Cement Company Limited and other subsidiary companies whose main activity is the manufacture and distribution of cement, which in 1978 accounted for 59 per cent of total Group turnover.

On 11 December 1978 RPC notified the Commission of its intention to increase the prices of ordinary Portland cements, rapid hardening Portland cement and Crown masonry cement by 11 per cent. The increase proposed for the Crown sulphate resisting cements was 9.6 per cent. These increases gave a weighted average over the range of products of 10.9 per cent.

On 9 January 1979 the company established an entitlement to a weighted average increase of 8.5 per cent under the Safeguard Regulations 1977 and on 2 March 1979 established an entitlement to a further 2.2 per cent. The cumulative effect of the two increases was equivalent to the 10.9 per cent average increase originally sought.

RPC owned eight quarries which were used to supply chalk, clay and stone to its seven cement producing works in England. The cement was distributed from both these works and from a further eight depots. RPC sold 5 types of cement on the home market although only 4 types were produced in its own works.

Six companies were engaged in both manufacture and marketing of Portland cement in the UK. The number of cement producing works in the industry had been reduced from 51 to 31 over the last 10 years but the number of RPC's works had remained the same. At the time of the investigation, production capacity of the industry was estimated at 19.5 million tonnes of cement.

The six companies manufacturing and marketing Portland Cement at the time of the investigation were members of the Cement Makers Federation (CMF) and had common price and marketing arrangements. The CMF in its "White Book" specified the delivered price which would be charged for ordinary, coarse-ground and rapid hardening Portland cements in every location in Great Britain. Regardless of which plant or company supplied the cement, the same delivered price had to be charged in any given location. The costs of all the members were submitted to the Independent Cost Committee (ICC) who recommended selling prices to the CMF. The framework of prices was built on "Basing Point Prices" at works and increments for deliveries to locations within distance rings of works. These arrangements had been considered by the Restrictive Practices Court on two occasions, when the Court held that the main price fixing conditions were not contrary to the public interest.

In 1978, against a growth in the UK market of 2 per cent, RPC had increased its sales volume by 8 per cent, and its market share to 16.5 per cent.

The Commission found that during the period from the last price increase to 8 January 1979, RPC's costs had risen to a level which marginally exceeded those notified. The turnover in 1978, after deducting discounts and merchants' rebates, at £56 million was over half the Group's turnover of £95.6 million.

Net profit for the RPC Cement activities before interest and taxation had varied between 2 per cent and 16 per cent of turnover during the period. The Return on Capital Employed on both Historic Cost Accounting and Current Cost Accounting bases had varied widely during the period. The Commission were not fully satisfied for a number of reasons that the CCA figures provided a reliable guide to the profitability of the Cement activities.

Out of the total capital expenditure of £41 million in the period 1973 to 1978 some £15 million was spent directly on increasing efficiency.

Funds generated by RPC's Cement activities (including depreciation) from 1973 to 1978 totalled £49.7 million. Taxation, dividends, pension contributions and requirements for working capital totalled £30.0 million and capital expenditure £40.8 million. The net deficit of £21.1 million in funds was mainly funded from Group resources, £4.4 million resulting from the sale of an overseas subsidiary and net loan repayments by other overseas subsidiaries amounted to £8.1 million.

The company's efforts to introduce technical change and effect cost reductions had been influenced by the historical background of the cement industry as a whole. It was the Commission's view that RPC's slow reaction to the 1973 fuel crisis had been reflected in its approach to technology, cost control and energy savings. In spite of a technical appraisal of its works and process improvement to achieve greater efficiency with existing plant, RPC did not appear to have effected major improvements in production or in the more efficient use of fuel and energy. These were long term problems and RPC had set in hand a large programme of both capital investment and research designed to improve efficiency. The company was considering the technical and economic feasibility of converting some wet kilns to semi-wet to achieve fuel savings.

In 1978 manufacturing and distribution costs accounted for 78 per cent of revenue, with variations between plants ranging from 67 per cent for the best to 95 per cent for Lewes. Manufacturing costs in 1978 were three times the 1973 level, the contributory factors being; a fourfold increase in kiln fuel cost, a threefold increase in electricity cost and a twofold increase in labour costs. It was clear that a well defined manufacturing plan over the long term was essential to take advantage of the opportunity for rationalisation which would arise in the short term. The Commission suggested various ways that the advantage of research experience gained by RPC could be implemented.

In 1978 the total distribution cost for RPC was 16 per cent of its total distribution and manufacturing cost. Cement was distributed to customers from seven works and eight depots to service some 6,000 demand locations. RPC set out to provide a high level of delivery service and it was clear that cement users of all types had a high regard for RPC's delivery service and the Commission's customer survey results were consistent with the company's view that it had competed successfully in this area. A relaxation of such high standards for some or all customers could have resulted in lower distribution costs.

Industrial relations in RPC were harmonious and no instances of industrial action had occurred in recent years. The company had a good record in low absenteeism and labour turnover.

The Commission believed that the management accounting and information system at the time of the investigation could have been better used to provide management with a sound basis for systematic improvement. The company appeared to have recognised the need for change and the Commission understood that the technical side of the company was undergoing a reorganisation to bring production, engineering and the laboratories under one director to take a central role in planning.

Given the common price agreement (CPA), the Commission found that prices increased equally and therefore did not adequately reflect differential cost increases between works. RPC contended that the Basing Point price system operated by the CMF provided an incentive to raise efficiency at high cost plants as the only way to improve the low profit margin - a point the Commission accepted. The Commission believed, however, there would be a greater incentive if the Basing Point prices were related more closely to costs at each works.

The Commission were satisfied that the increased supplement for bagged cement and commensurate reduction of the bulk cement price met the price restructuring advocated in their earlier Associated Portland Cement Manufacturers Ltd report, HC 495 (1978).

RPC's Cement activities had generated funds sufficient to maintain their current operations but not to finance the capital expenditure programme - though the Group's cash resources appeared large enough to maintain that programme. The Commission noted that returns on capital employed had been relatively modest in recent years and concluded that concentration of more investment and effort on improving efficiency might have produced more favourable returns.

The Commission believed that the CPA had the effect of weakening the company's incentive to improve efficiency and reduce costs and that the industry's least efficient works should have been excluded by the ICC from the calculation of the common price.

As in the earlier APCM Report, the Commission still considered that there would be a gain in efficiency if Basing Point prices more accurately reflected the cost of production, and they regarded as a retrograde step the decision of the CMF to move to a common Basing Point price throughout the industry.

The Commission identified a strong demand by customers for direct negotiation with the cement manufacturers over the price the purchaser paid for his cement.

The Commission considered that a more realistic allowance, closer to that allowed to builders' merchants, would persuade larger users to take advantage of the opportunity to collect.

They also believed that RPC's customers might be provided with an adequate level of service somewhat more cheaply.

RPC had restructured its technical organisation in order to bring production, engineering, and laboratories under one director who would play a central role in reducing costs. The Commission believed this measure could be developed further and that some management strengthening would be desirable.

The company had established under the Safeguard Regulations 1977 an entitlement to the increase notified. The Commission therefore were not able to recommend a restriction of the notified increase.

The Commission recommended that this increase should not be subject to any restriction as to further increases but indicated that on the occasion of the company's next application for a price increase they would look very closely to see what genuine improvements it had set in hand to implement plans to concentrate on improving its management and technical efficiency.

Investigation report published

This report was published in February, although completed during the previous quarter:-

Butlin's Ltd

On 20 September 1978, Butlin's Ltd, a subsidiary of The Rank Organisation (the Group) notified a 15.17 per cent (later re-calculated as 14.4 per cent) weighted average increase in charges for holidays at its eight main holiday centres in the United Kingdom. The charges included holiday insurance made obligatory for the first time for the 1979 season.

Butlin's has two main divisions; the Small Centres Division (SCD) controls Butlin's smaller holiday centres, hotels and boating interests; the Main Centres Division (MCD) controls the eight holiday centres investigated.

At the time of the investigation, about 10,000 guests at a time could be accommodated at MCD's four larger holiday centres and some 6,000 at each of its four smaller ones. Guests could choose from two main types of holiday accommodation, namely 'all-in' (ie inclusive of meals) or self-catering. In either case, Butlin's holiday 'package' - aimed particularly at families with school age children - provided entertainments and amusements.

Since 1968, about half the accommodation of the main centres had been converted into self-catering units. This development had enabled single-sitting dining for all-in guests to be introduced; all eight centres would have made this change by 1980.

Since 1974, holiday camps had maintained their 6 per cent share of a relatively static holiday market. Butlin's share of the holiday camp market had remained fairly steady at just under 50 per cent. Although Butlin's and Pontin's Limited together probably had 85-90 per cent of the holiday camp market their potential customers had a wide choice of other types of lower price holidays.

The marked variation in demand for holiday camps over the main summer season was reflected in the tariffs. However, since supply was restricted, competition was noticeably weakened as demand increased during the peak holiday season. Butlin's tariffs during the summer school holiday period were found to be significantly higher than those of a major competitor.

Up to 1977, Butlin's tariff had increased less than the Retail Price Index (RPI). In 1978, however, Butlin's had implemented a 15 per cent increase in tariffs while the inflation rate had come down to 8 per cent. Butlin's proposed 14.4 per cent increase in 1979 was again likely to be higher than the movement in the RPI.

The Commission found the day to day management of Butlin's holiday camp business to be efficient. However, several aspects of Butlin's corporate strategy and the way decisions were taken gave cause for concern.

While high occupancy levels had been achieved Butlin's had adopted a cautious approach to developing the centres for out-of-season use, such as business conferences, in view of the substantial capital expenditure that would be needed.

The seasonality of the holiday market posed major staffing problems for Butlin's. At the peak of the summer season some 10,000 casual staff were employed in the eight main centres but taking labour turnover into account Butlin's needed to recruit and train some 20,000 casual staff each year. Butlin's had had generally good industrial relations with no record of strikes or working to rule. The figures provided by Butlin's indicated a good safety record.

Over the period 1974 to 1978, MCD's net income had risen from £21.3 million to £37.0 million while net profits before interest had risen from £4.5 million to £7.3 million. The various categories of income and costs had remained relatively constant over the period with about three-quarters of total net income derived from tariffs and the balance from retail sales from bars, restaurants and shops and other income from concessions, automatic vending machines and day visitors.

The Commission found no regular management accounting analysis of the comparative profitability of the different functions of MCD business. In view of Butlin's major decision to convert much of its all-in accommodation to self-catering it was considered important to form some impression of the relative profitability of each type of accommodation. Calculations suggested that the self-catering holiday contributed at least no more and possibly less than the all-in holiday.

The return on capital employed in Butlin's MCD had improved throughout the five years to reach 16.7 per cent (historic cost accounting (HCA)) and 5.8 per cent (current cost accounting (CCA)) in 1978 - figures which concealed wide variations between the eight centres.

The CCA returns needed to be viewed with some caution as they reflected the profitability of a leisure business with an asset structure more akin to a property holding company. Accordingly the Commission considered that MCD's profitability could best be assessed in the light of its cash flow requirements.

MCD's capital expenditure between 1974 and 1978 amounted to £15.9 million and was estimated to reach £18.1 million over the next five years. Much of this investment was intended to produce new and better accommodation and to improve MCD's future returns on capital. An element of growth was involved as the new accommodation units had a potential use outside the main holiday season.

Because the Rank group withdrew the whole of each year's post-tax profit from its subsidiaries by way of dividend, it was necessary, in order to assess the MCD's cash flow, to take into account an appropriate level of dividends which would have been paid if it had been an independent business. After making certain assumptions about dividends, the Commission calculated that the MCD's aggregate cash flow for the five years 1974-1978 would have resulted in a small positive cash flow. However, this positive balance would have resulted after financing from internal sources the whole of capital expenditure, including a significant element of growth.

The policy of withdrawing the whole of each year's profits clouded the extent to which cash generated by MCD was used to finance another part of Butlin's - namely the Small Centres Division.

Butlin's 1979 forecast for MCD showed a net profit percentage margin of 21 per cent, compared with 19 per cent and 20 per cent for 1977 and 1978 respectively. The return on capital employed for 1979 was also forecast to increase.

The Commission believed that total costs were reasonably forecast to increase by 10.9 per cent, or £3.2 million. These costs included salaries and wages which were forecast to increase by 15.9 per cent largely because seasonal staff received an average wage increase of 18 per cent in accordance with the recommendations of the Licensed Residential Wages Council.

As the Commission were satisfied that Butlin's day to day operations were effectively conducted, they considered that an increase in total income designed to recover increased costs estimated at £3.2 million was justified. After taking into account additional income of about £1 million from retail sales and other sources, the Commission believed that only the residual balance of costs and the cost of compulsory insurance needed to be generated by increases in tariffs, equivalent to 9 per cent (weighted average). The Commission did not believe that any further increase would be justified at least until 19 September 1979. The Commission considered that the restriction recommended should provide an adequate return on capital employed and allow the Main Centres Division's investment programme to continue.

The Commission also recorded some observations concerning the implementation of the tariff increases which they proposed to bear in mind when dealing with future price notifications from Butlin's Main Centres Division.

Examinations

Examinations begun

During the period of the report no further directions were issued by the Secretary of State for examination.

Examinations in progress

Work continued on the following examinations already in progress on 1 February 1979:

a prices, costs and margins in the manufacture and distribution of parts for motor cars of types commonly supplied for private use; the Secretary of State issued a variation of his direction, to require that the report be made before 31 May 1979;

b charges, costs and margins of estate agents with particular regard to charges, costs and margins in relation to sales and purchases of domestic property;

c the prices, costs and margins in the manufacture and distribution of children's toys and games (other than electronic games) having particular regard to metal toys and boxed indoor table games.

Examinations completed

Reports were made to the Secretary of State on:

a the prices, costs and margins in the manufacture and distribution of the following items suitable for installation in domestic properties:

i garage doors made of metal;

ii metal-framed doors and windows whether supplied pre-glazed or not;

iii metal frames in which such metal-framed doors and windows may be mounted; and

the installation of such items in existing domestic properties.

b the prices, costs and margins in the distribution of video tape recorders and their accessories, including signal recording materials.

c the prices, costs and margins in the manufacture of floor and furniture polishes packaged for household use.

With the exception of the report on the prices, costs and margins in the manufacture of floor and furniture polishes, these reports were published during the period. The findings of these reports may be summarised as follows.

Metal Doors and Windows

The examination into the prices, costs and margins of metal doors and windows for installation in domestic properties was concerned with four separate markets.

Aluminium windows and doors installed in existing properties

The market was worth £249 millions in 1978; this was 54 per cent more than the previous year; and a growth rate of more than 40 per cent was expected in 1979. Four companies held some 41 per cent of the market. Replacement windows and doors accounted for some 77 per cent of sales in 1978, whilst secondary windows accounted for about 23 per cent. The secondary window segment was dominated by Everest with some 44 per cent of this market in 1978. In the replacement windows and doors segment, Cold Shield was the market leader with some 12 per cent.

The Commission found that this sector was easy for companies to enter; thus there were many companies in this market and in that respect there was much competition.

Although aluminium windows and doors were a significant purchase in terms of price, the Commission noted that only one of the four major companies made a price list available to potential customers. The Commission found that the prices charged by the different companies varied widely. For similar products, the highest prices tended to be roughly twice the levels of the lowest prices.   It was possible to obtain high standard products at a wide range of prices and from both large and medium-sized companies.

Price increases during the years 1976 to 1978 by the large companies had been greater than those made by the medium-sized companies. The price increases of the large companies were lower than the increase in the index of wholesale prices for aluminium extrusions, but similar to that for flat glass; they were higher than the general rise in retail prices over the period.

The Commission found that the fabrication operations of the large companies were reasonably efficient, although deliveries were often after the promised delivery timing and the monitoring of materials wastage could have been carried out more methodically. They also thought that there was further scope for the standardisation of window sections. Customer satisfaction was evidenced by their customer survey which indicated that three out of four customers were "very satisfied" with the product and service provided to them. Two major areas of dis-satisfaction were reliability in starting on time and condensation.

Although there were a large number of suppliers, and no substantial barriers to new entrants, the Commission thought that the failure of companies to meet the consumer's need for information prevented competition from being effective.

The four major companies in this sector of the market had doubled, in aggregate, their total sales revenue from 1976 to 1978 and increased their aggregate net profits before taxation from £4.3 millions to £11.5 millions. It was significant that the margins of the major companies, averaging 11 per cent in 1978, were markedly higher than those obtained by the other large and medium-sized companies, averaging 5 per cent in 1978. The returns on capital employed of the major companies averaged 44 per cent on an historic cost accounting (HCA) basis in 1978. This high rate of return on capital employed was in part because the fixed capital required to run this type of business was low.

The Commission welcomed the trend towards window centres and sales through retail outlets generally, since this enabled consumers to make product and price comparisons in an environment free from the pressures associated with doorstep selling. The Commission's consumer survey showed that over half of the people interviewed obtained only one quotation.

Some companies used what were described as "first call" discounts; these were conditional upon an order being placed on the salesman's first visit to a customer. The Commission were concerned about the use of excessive discounts for full payment at the time of placing an order; they also considered the deposit required by companies on cash orders to be high. The Commission suggested that the Secretary of State should discuss these matters with the Director General of Fair Trading.

Changes were in process of being made to the Consumer Credit Act 1974 to allow a period of "thinking time" between making a purchase on credit terms in the house and the contract becoming irrevocable. The Commission considered that the same provisions should apply to cash transactions and that customers should have the right of cancellation and full return of their deposit if suppliers failed to meet delivery timings.

The Commission had reservations about some of the claims made by companies about fuel savings and reductions in condensation. In many cases, energy saving measures, such as draught excluders and roof insulation, could offer better value for money in terms of reducing fuel bills than having double glazing installed.

The weakness of price competition seemed to be a matter that should be remedied by the implementation of a strong code of practice. However, the Commission considered that in view of the very wide range of prices that were quoted for similar products, the Department of Prices and Consumer Protection should produce and make available a short leaflet drawing attention to such matters and recommending customers to seek alternative price quotations.

The Commission believed that three measures should be implemented as a matter of urgency. First, each company should make a comprehensive price list available to potential customers: second, each company should always provide a potential customer with a price quotation in writing on a formal basis: third a potential customer should be given a copy of the DPCP leaflet with the written quotation. Companies which failed to put these measures into effect should have a restriction placed on their prices and charges in order to protect the interests of the consumer.

The use of first call discounts was another matter that should be remedied and the Commission recommended that their use should be discontinued.

Aluminium windows and doors installed in new properties

This market, which had been static in volume terms over the last two years, was worth some £11 million in 1978. Competition arose both between different suppliers and from windows and doors made from different materials. The Commission considered that the main aluminium fabricators were operating competitively in this market sector.

Over 80 per cent of sales by the six main fabricators were obtained by submission of quotations. The price competitiveness of individual companies, on a quotation basis, varied between products, in part because of significant variations in the designs of each manufacturer. Between January 1976 and November 1978, list prices were increased by some 54 per cent compared with increases of 51 per cent for steel windows and doors and 44 per cent for timber windows.

The fabrication and distribution operations of the major companies were found to be reasonably efficient. Their aggregate returns on capital employed, on an historic cost accounting basis, were similar to those achieved by the major aluminium window and door fabricators in the existing domestic properties market sector. However, the aggregate figures masked a considerable variation in individual results. Net profit margins of three of the main companies averaged about 7.5 per cent of sales over the two years 1977 and 1978.

Steel windows and doors

The UK market was worth some £6 millions per annum in 1976-77 and 1977-78; it was dominated by two companies - Crittall, with half the market and Ideal Williams with a third. The manufacturers of steel windows were in competition with the manufacturers of other types of windows, particularly those made of timber.

Crittall was the price leader in this market and the two major companies issued list prices which were identical. The total percentage increase in prices since January 1976 had been slightly lower than the total percentage increase in the prices of the main input material - rolled steel sections - over the same period. Some 70 per cent of sales were obtained by quotations; these were found to differ between the two major companies. Since list prices for standard windows were identical, price competition between the two major companies was in terms of the negotiation of discount rates.

The net profits before taxation of the main steel window and door manufacturers were 5.1 per cent of sales in 1977-78.

Although no specific measures were considered necessary at the time of the report, the Commission intended to monitor the movements in Crittall's steel window and door prices in view of its high share of the market.

It was the Commission's view that retrospective annual rebates given by the two major companies could prevent smaller, and possibly more specialised manufacturers from competing on equal terms. The Commission recommended that they should be discontinued unless the companies could establish that such rebates were a substantial help to their production planning.

Domestic garage doors made of metal

The total UK market was worth some £13 million to UK manufacturers in 1977-78; the Commission estimated that it had expanded over 10 per cent in unit terms compared with 1976-77. The market was dominated by two companies - Henderson and Westland. Henderson held more than two-fifths of the market and Westland just over one-third.

All sales by the two major companies were made at published list prices but these were subject to quantity discounts, cash discounts, and retrospective annual rebates. The list prices were equivalent to suggested retail selling prices but the two major companies only rarely supplied to non-trade customers. There were significant differences in the extent and types of discounts offered to trade customers by the two major manufacturers.

The Commission considered that competition took place more on quality and service than on price. While recognising that these two factors were vital elements in an efficient market, they believed that it was important that prices should reflect the competitive strength and efficiency of the suppliers. In this connection the Commission found that certain discounts and charges were subject to negotiation.

Henderson was found to be a highly profitable company. Westland broke-even in 1976-77 but was profitable again in 1977-78. Westland's decline in profitability had been due to a sudden change in the pattern of market demand. The Commission formed the view that Henderson was a reasonably efficient supplier of goods and services. The Commission noted that production of domestic garage doors on a large scale had a high break-even point and that margins of profitability increased disproportionately when volume greatly increased above that point.

Capital expenditure by the main companies in recent years had been generally low, but the building industry had been in a depressed state.

The Commission formed the opinion that, given the nature of competition in this market, Henderson's profitability was high but in view of the company's intention to increase its level of capital expenditure substantially over the next 2 to 3 years, decided that an indication to the Secretary of State in respect of a price restriction was not called for. The Commission took the same view in respect of retrospective annual offtake discounts in this market as they did in respect of such discounts in the steel windows and doors market.

Distribution of Video Tape Recorders and their accessories

The Commission found that within the scope of the examination there were currently five distinct and incompatible systems of video tape recorders (VTRs) in which the tape was carried in cassettes. All the VTRs were imported, as were most of the tape, all the cassettes and the accessories, which the Commission took as meaning microphones and cameras.

Although VTRs had been sold in the UK for educational and commercial use for some years, the Commission found that the market as a whole was at an early stage of development. Sales of VTRs by importers increased from 16,000 in 1977 to about 82,000 in 1978 (however not all of these reached the UK consumer because of stock-holding and re-exports) and the proportion of sales for home use compared with sales for commercial use increased from 31% in 1977 to 88% in 1978. Future market growth would depend on factors such as the importance which households place on having VTR and the effect of the availability of VTRs for hire.

A survey of prices in November 1978 revealed that currently a wide range of retail selling prices was being charged for essentially similar VTRs. Nevertheless importers' and retailers' margins were not excessive and the Commission concluded that, with over a dozen importers currently selling VTRs, the consumer interest was adequately protected by the current degree of competition. However, because of the early stage of development of the UK market, only limited worthwhile data was available and thus the Commission doubted whether it would be possible to make a valid assessment until the market had matured, which was unlikely to be for a year or two.

A survey of prices in the USA and Japan revealed that the UK consumer had to pay more for his VTR than did his Japanese counterpart and considerably more than his counterpart in the USA. The difference between UK and Japanese prices could be largely accounted for by additional manufacturing costs, freight, duty and sales taxes. However, while some of these factors also accounted for part of the difference between UK and USA prices there was still a significant balance which the Commission considered to be attributable to the greater size of USA market and its traditional approach to discounting.

The Commission considered that forecasting future UK prices was difficult since it was not clear whether increased production would bring a fall in prices in real terms or whether, as VTRs had been in production abroad for several years, cost savings might already have been largely realised.

Although the net cost to the UK's balance of payments was as yet only of the order of £25 million per annum adverse balances in future years were likely to be higher. The Commission accepted that it was unlikely that at this stage the UK industry could enter the market with a competing product and it endorsed the view of the industry that the best way forward would be to persuade manufacturers to establish a UK plant as a European supply centre, and to encourage other companies to assemble kits of parts supplied from it.

In their earlier report on the hiring of television sets* the Commission had already noted that they would like to see the television rental companies contributing more in planning and financing to the development of new products including the VTR. Thus, the VTR report noted the Commission's hope that, if market circumstances seemed right, the rental companies would play their full part in stimulating VTR production in the UK.

*HC 658 (1978)

Examination report published

This report was published during the quarter, although completed in January 1979.

Portable Electric Tools

The sales value in 1978 at manufacturers' selling prices of portable electric drills, integral tools (eg jigsaws, sanders) and attachments (supplied predominantly for DIY purposes and designed primarily for wood or metal working) was £17.7m, a growth of 19 per cent on 1977. Within the total, the drill market was virtually static, while integrals showed a growth of 66 per cent and attachments a 7 per cent fall.

Black & Decker Ltd achieved its leading position as a result of a number of factors. It had identified the significant potential demand in the UK for a cheap and simple tool and displayed considerable engineering skill in designing improvements. It had invested in automated production in order to secure economies of scale and had achieved volume sales by setting the price of new products against future target costs at high production levels. It advertised heavily in the 1960s but its level of advertising had subsequently been reduced to 4 per cent of sales.

As a result, Black & Decker had, at the time of the investigation, 93 per cent of the drill market, 87 per cent of integrals and 95 per cent of attachments. The competition which the company was facing was of two kinds. The first was from imports where there was potentially strong competition from Rockwell (USA) and Makita (Japan). Second, Black & Decker (itself a subsidiary of a US company) was facing indirect competition in export markets from other companies in the Group but was exporting over one-third of its sales.

Black & Decker was concerned at the growing proportion of sales passing direct to large multiple retailers and therefore was arranging special deals with the independents, giving them an opportunity to compete with large multiples. The company also had a small budget for volume discounts which the Commission were satisfied were distributed equitably as between different types of output.

The Commission found at least 50 companies selling a wide range of accessories for DIY use at widely different prices. There was no evidence of lack of competition in this market.

Products under examination accounted for about one quarter of Black & Decker's total sales. For the company as a whole, net profits before interest and tax in 1978 were 12.1 per cent of sales and CCA return on capital 12.9 per cent; they had increased from 7.3 per cent in 1975 and 4.2 per cent in 1976 respectively. Cash flow, in deficit between 1971 and 1974, had recovered and the company was £6.4m in credit at the end of September 1978. If dividends had been paid at the same rate as by the parent company the cash flow surplus would have been reduced by about £5m. The company had plans for continued capital expenditure in the UK. A small cash outflow was expected in 1979.

Three-quarters of the contribution on Black & Decker's products under examination was earned by drills. The percentage contribution on integrals was only about one-quarter of that on drills, but was expected to improve rapidly as manufacturing costs fall with increased volume the next two years. The company's expansion had generated cash which has been retained in the UK.

Stanley Power Tools and Wolf Electric Tools each was found to have a very small share in the market and the report did not therefore explore them in great detail.

Virtually all Black & Decker's DIY products were being manufactured at its Spennymoor factory in Co Durham, in which its major investment in recent years had been the £2m automation of the motor winding shop; this produced considerable improvements in productivity and cost efficiency. In response to the increasing saturation of the drill market by about 1970, Black & Decker shifted its emphasis from attachments to integrals and this encouraged consumers to enjoy the greater convenience of self-powered single-purpose tools. Its attitude to product innovation was also evidenced by the upgrading of its drills - the number of types of hammer drill increased from two to seven - and new features such as an "acceleration trigger" and electronic controls on some drills had been introduced.

Black & Decker DIY tools were found to offer more power per £ of retail price paid by the consumer and had usually been recommended by "Which?" as "Good Value for Money". In Black & Decker there was a consultative style of management which had undoubtedly contributed to industrial harmony and a significantly lower level of personnel turnover than is common in most of manufacturing industry.

As in other areas of consumer goods, a growing share of the products under examination was being sold through multiple retail outlets. The shares of independent retailers and regional multiples and of mail order sales had fallen slightly. Approximately 20 per cent of the DIY power tool market was passing through wholesalers who on average worked to a gross margin of around 10 per cent. Retailers achieved an average gross margin of around 25 per cent. A comparison for those companies who were able to provide the information suggested that retail gross margins had fallen slightly between 1975/76 and 1977/78.

The index of manufacturers' selling prices of Black & Decker drills had risen less over the last ten years than either the wholesale price index for all electrical products or that for vacuum cleaners.

There was considerable disparity in the retail prices of the products under examination between different types of outlet in terms of discount from RRP. The Commission found no evidence that manufacturers had abused the system of RRPs by deliberately inflating recommended prices. In independent shops, discounting from RRP was moderate for all manufacturers so that the potential of the RRP to mislead was limited. In multiples, Black & Decker's products were sold at substantial discounts from RRP but since Black & Decker had 90 per cent of the market, the RRP was acting as a benchmark for its products across all types of output. The existence of RRPs had not proved to be a barrier to new entrants and with two major international competitors already operating in the UK market, the Commission expected further competition to develop.

Changes in the pattern of distribution in recent years had led to wide disparities in prices between the large multiples and the small independent retailers. Because of this development, the Commission thought that in certain areas the differential between the RRP and the net price had become excessive and needed to be reviewed.

The Regional Offices

Surveys and interviews in connection with the sectoral examination of Estate Agents' charges constituted a significant part of the Regional Office work load for the quarter; Regional staff assisted estate agents throughout the UK to complete almost 500 questionnaires. The large number of interviews involved and the reluctance of some estate agents to co-operate in the study made this one of the more difficult survey tasks undertaken by Regional staff. During March a wide range of businesses including manufacturers, importers, wholesalers and retailers, was visited in connection with the toys and games sectoral examination; and some 170 questionnaires were completed. A survey of 176 Rugby Portland Cement customers was carried out in February.

During March and April Regional staff monitored beer prices in support of the investigations of Bass Ltd and Whitbread and Co Ltd prices. Routine monitoring of fresh food prices continued, with fortnightly surveys. In addition to these regular price surveys in large towns, the Regional Offices carried out their regular 6 monthly price collections in 30 medium sized and 41 small towns. Other surveys of prices of such diverse products as bread and petrol were also carried out.

Regional Managers and their staff continued their programme of talks about the Price Commission ~~and its works~~ to Citizens Advice Bureaux, Consumer Groups, Rotary Clubs and Chambers of Commerce and Trade.

Roughly 5,800 complaints were received during the quarter (compared with 6,000 in the previous quarter) together with 2,000 enquiries. The price increases for beer and petroleum products and the introduction of direct billing by some water authorities gave rise to most complaints, the latter mostly from householders who did not realise that local authority rates no longer included sewerage disposal charges. A considerable number of complaints also arose from confusion following the introduction of sales of tobacco by metric weight but towards the end of the quarter there was evidence that the worst confusion was over.

Regional offices received a total of 300 complaints from small businesses. Among the subjects were charges for services like burglar alarm rental and maintenance charges, laundry prices and repairs to office equipment. During February many paraffin retailers complained about the delay between the increase in paraffin wholesale prices and the increase in the statutory maximum retail price; for a few days paraffin retailers were unable to pass on the increased wholesale price.

Whilst ~~many~~ most complaints were dealt with simply by enquiry and explanation, 376 price reductions were achieved by Regional staff. Some examples are:-

1 The makers of a custom-built sliding folding office partition agreed to reduce the price from £2800 to £1900 to conform more closely with an earlier estimate, saving the firm who had bought the partition £900.

2 Following enquiries by Regional staff, a laundry agreed to abate a proposed 20% price increase to 15% in order to reflect more closely the increases in its costs. A County Council estimated that as a result it would save £6000 on laundry charges this year.

3 A firm intending to increase the price of pulverised fuel ash from £2.60 to £3.11 per ton was persuaded to reduce the amount of the increase by 10p per ton to reflect more accurately the increases in its costs; the complainant saved £300.

4 Amongst the many reductions in plumbing charges, the bills for two jobs carried out by one firm were reduced from £70 to £52 and £38 to £23 respectively to correct inflated charges made by a dishonest employee.

5 Regional staff achieved a number of reductions on car repair charges. These included a saving of £36.60 to correct an error in charges for replacement parts, a reduction of £15 in a bill for £113, and cancellation of a charge of £32 for work carried out on a car under guarantee.

6 Successes in reducing charges for general repairs and replacement parts included a reduction of £11.85 on a bill for £41.09 for fitting a regulo assembly kit to a cooker, and also for a cooker the price of a knob was halved to £1.13 to correct an error.

7 A chain of supermarkets agreed to reduce the price of table salt from 13½p to 8½p per pack to bring the price into line with their normal pricing practice.

8 The price of tea bags was reduced by 1p to 72p in 105 shops in a major voluntary group to correct an error in the wholesaler's price list.

9 Following enquiries by Regional staff, the price of babies' napkins was halved to correct an error by a retailer who had priced individual napkins at the "per pair" price. The complainant, who had bought 6 pairs of napkins, received a refund of £14.94. A cash and carry wholesaler refunded £15.80 to a trader who had been charged £17.55 for a pack of 5 babies' plastic bottles instead of the correct price of £1.75.

10 Complaints about plant maintenance charges led to a number of reductions as gestures of goodwill. A small business was saved £40 on labour charges of £101 for repairs to a boiler pump, a bill of £585 for electrical wiring and fittings was reduced by £50, the charge for fitting an immersion heater tank was reduced from £110 to £64, and a reduction of £35 was obtained on a bill of £170 for fitting a central heating cylinder.

11 Also in the repair and maintenance context, a charge of £440 for damp-proofing was reduced to £220, and a £5 reduction was obtained on a pensioner's bill of £108 for painting and decorating, both as gestures of goodwill.

4 Statistical Review

Analysis of notifications

Under the Notification Order 1978[1], manufacturing and service enterprises with annual turnovers greater than £15 million and £12 million respectively were required until 24 May 1979 to notify the Commission in advance of any increases in their prices (apart from certain exceptions described in the same Order).

Table 1 shows the flow of notifications received during the period covered by this report compared with earlier periods.

Table 1: Notifications received

The table shows that the number of notifications received per month has risen to 426 from 348 in the previous period while the amount notified has risen to £793m from £721m, in each case larger than in any period since the new Commission began in August 1977.

[1] The Prices and Charges (Notification of Increases) Order 1978 (SI 1083) hereinafter referred to as the Notification Order 1978.

Table 1: Notifications received

Monthly averages

	1974-77 Jan-July	1977 Aug-Oct	1977-78 Nov-Jan	1978 Feb-Apr	1978 May-July	1978 Aug-Oct	1978-79 Nov-Jan	1979 Feb-Apr
Numbers	697	215	315	303	307	286	348	426
Annual turnover(£m)	11,272	5,192	8,276	8,689	7,243	5,905	12,671	12,640
Amount of price increase notified(£m)*	812	271	440	415	319	282	721	793
Percentage price increase notified	7.2	5.2	5.3	4.8	4.4	4.8	5.7	6.3

* Annual rate

Price Commission Index

The Price Commission index is derived from the notifications of price increases which were made by the largest (formerly Category I) enterprises. The price changes incorporated into the index for any month were those of notifications received in that month after taking account of reductions due to notifications that were modified or withdrawn by the company and of the effects of investigations. The percentage increases are weighted by the turnover of the goods or services concerned over the previous year and are related to the estimated aggregate turnover of these firms which is subject to notification.

As it is only after some months that notified increases are reflected first in wholesale and then in retail prices, the Commission index is a leading indicator of price changes. The composition of the Commission index differs considerably from that of the wholesale price index or the retail prices index, so the correspondence cannot be expected to be exact. Nevertheless, the study published in Annex 2 to the Commission Report for the period August-October 1978 showed that if the items of the retail prices index that are exempt from notification (eg mortgage interest, fresh food) are excluded, an index composed of the remaining 71 per cent (by weight) has tended to follow the Price Commission index after a lag of three months. The tables and charts in Appendix 3 extend the analysis and bring it up to date, showing that the relationship continues to hold.

Tables 2 and 3 and Figures 1 and 2 present six and twelve month changes in the Commission index compared with those in the official price indices. As explained in the Commission's Report

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Table 2

Percentage changes over six-month periods in Price Commission Index, Retail Prices Index and Wholesale Price Index : annualised rates

Six months to		Price Commission Index	Retail Prices Index (1)	Wholesale Price Index (2)
1976	July	12.6	12.9	15.6
	August	12.4	13.2	16.8
	September	13.5	14.5	18.2
	October	16.9	14.4	18.5
	November	19.3	14.2	20.1
	December	18.2	15.2	20.3
1977	January	18.2	18.0	25.2
	February	19.0	18.4	24.5
	March	20.8	18.7	23.4
	April	17.4	19.7	25.2
	May	16.1	20.0	23.7
	June	15.0	19.6	24.0
	July	14.3	15.6	18.6
	August	11.5	14.9	16.7
	September	7.8	14.1	15.6
	October	7.3	9.9	11.7
	November	5.8	8.7	8.6
	December	6.0	7.4	7.1
1978	January	5.9	7.2	7.2
	February	7.2	7.2	7.7
	March	7.5	6.8	7.9
	April	7.2	8.4	7.9
	May	6.8	8.6	8.7
	June	6.1	8.9	8.9
	July	5.9	9.1	7.6
	August	4.5	9.6	7.6
	September	4.3	9.6	7.7
	October	4.7	7.7	7.7
	November	4.9	8.0	7.0
	December	5.7	8.2	7.5
1979	January	8.7	8.8	8.2
	February	10.0	8.9	9.1
	March	12.0	9.3	9.7
	April	13.0	12.3	11.4

Table 3

Percentage changes over twelve-month periods in Price Commission Index, Retail Prices Index and Wholesale Price Index

Twelve months to		Price Commission Index	Retail Prices Index (1)	Wholesale Price Index (2)
1976	July	14.0	13.2	16.2
	August	14.3	13.5	16.7
	September	15.0	13.6	17.5
	October	15.9	14.0	18.2
	November	15.6	14.0	19.3
	December	15.6	14.2	17.9
1977	January	15.3	15.8	20.3
	February	15.6	15.8	20.6
	March	17.1	16.6	20.8
	April	17.1	17.4	21.8
	May	17.7	17.1	21.9
	June	16.5	17.4	22.1
	July	16.2	17.0	21.9
	August	15.2	16.7	20.5
	September	14.1	16.4	19.4
	October	12.2	15.0	18.2
	November	10.8	14.2	15.9
	December	10.4	13.3	15.2
1978	January	10.0	11.3	12.8
	February	9.3	11.0	12.1
	March	7.6	10.4	11.7
	April	7.3	9.1	9.7
	May	6.3	8.6	8.7
	June	6.0	8.1	8.0
	July	5.9	8.3	7.4
	August	5.9	8.4	7.6
	September	5.9	8.2	7.8
	October	5.9	8.1	7.8
	November	5.9	8.3	7.8
	December	5.9	8.5	8.2
1979	January	7.3	9.0	7.9
	February	7.2	9.2	8.4
	March	8.1	9.5	8.7
	April	8.7	9.7	9.5

(1) Excluding seasonal food.
(2) Manufactured products.

Figure 1

Changes in the Price Commission Index, Retail Prices Index and Wholesale Price Index

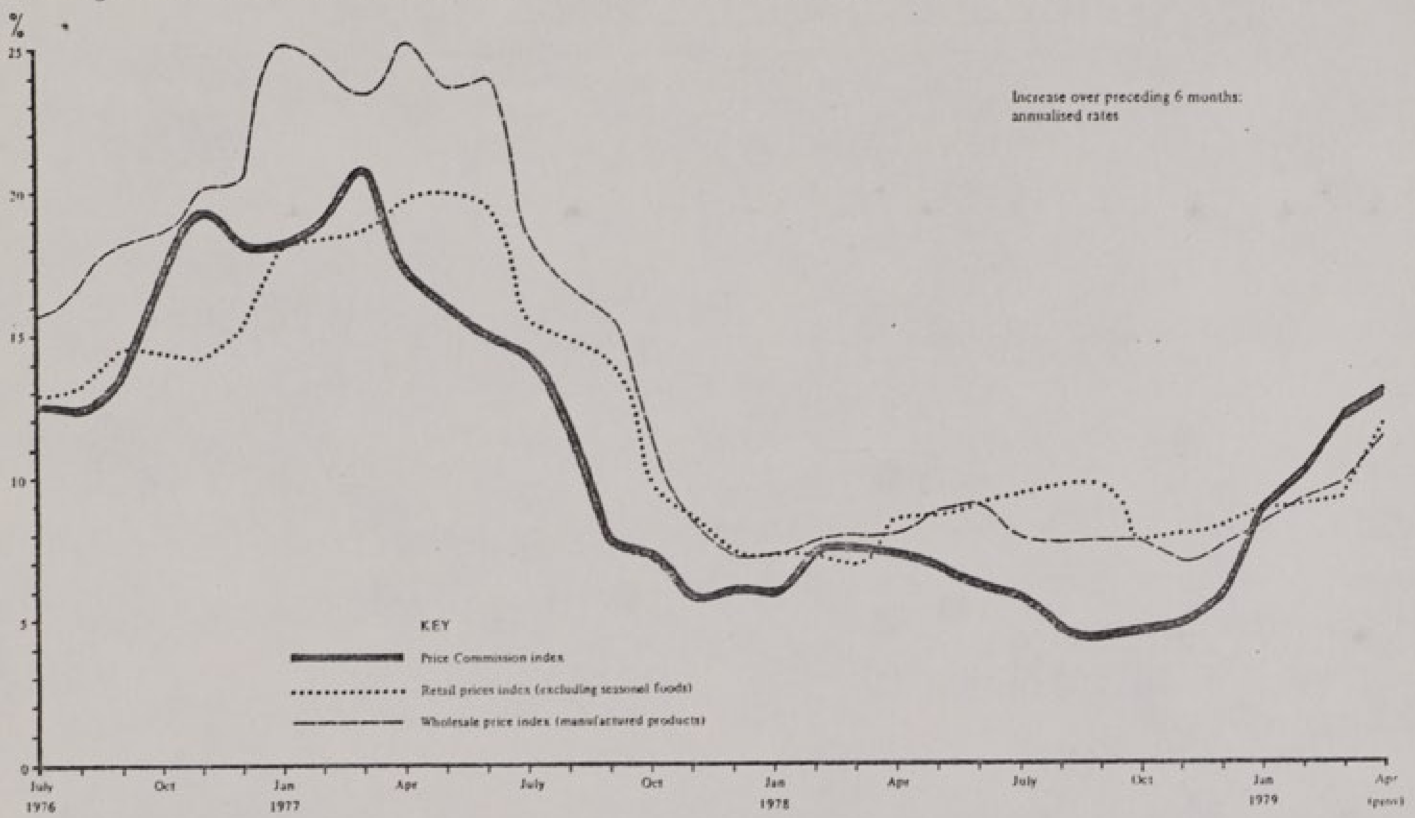
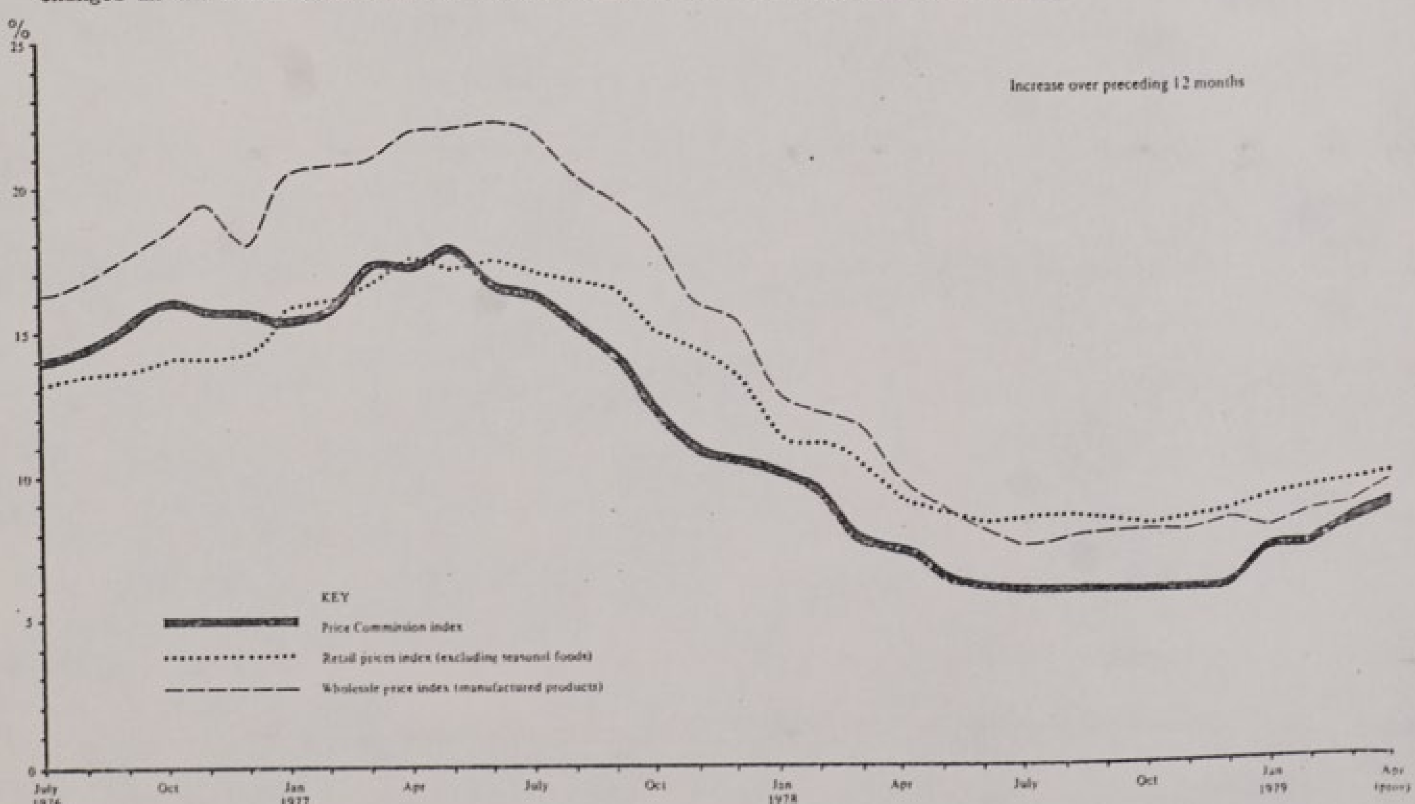


Figure 2

Changes in the Price Commission Index, Retail Prices Index and Wholesale Price Index



for November 1978-January 1979, the stable behaviour of the twelve-month change throughout 1979 suggests that a seasonal pattern may have been establishing itself and so it is best to look at the trend in both the six and twelve-month changes.

Both charts show that the upward trend in the Commission's index that started in January has continued through to April. The six month increase is now at its highest point since the new Commission began in August 1977, while the twelve months increase (which generally reacts more slowly to changes) is up to the levels of early 1978. The official indices are now showing the first signs of a similar upward movement.

Frequency and size of price increases

In the Commission's Report for the period August - October 1978, details were given of a study of how often price increases for a sample of consumer products had been notified and how this frequency had varied between 1973 and 1978. It showed that the average number of notified price increases had fallen from between 1.9 and 2.4 per year in the year in the four years to July 1977 to 1.2 per year in the year to July 1978, the first year of the new Commission. The Commission have always held that the reduction in the frequency of price increases is an important part of the process of stopping the inflationary psychology that can produce instability and inefficiency, since frequent price changes, even if small, reduce the incentive to reduce costs, make planning impossible and, by producing uncertainty in the minds of consumers, contribute to the wage - price spiral. NP [The ~~is~~ analysis has now been brought up to date and extended to cover the average percentage size of the price increases.

The latest results, derived from an improved sample of individual consumer items, are weighted to be representative of that part of the retail prices index that is not exempt from notification (imports, fresh foods, mortgage interest and other items with a combined weight of 39% are excluded). It should be borne in mind that this only deals with notified increases and does not cover changes in retailers' margins or increases like the effect of duty changes or the Common Agricultural Policy that are not notifiable.

Table 4: Frequency and size of notified price increases.

The table shows that after the sharp fall in the year to July 1978, the frequency has remained steady at just over 1 notification per year in the latest period. The average size of increase also fell in the first year of the new Commission and then remained steady in the latest period, but here the changes are far smaller than with the frequency.

Table 4: Frequency and size of notified price increases

	Year ending 31st of				
	Jan 1977	July 1977	Jan 1978	July 1978	Jan 1979
Average number of notified increases in year (%)	2.1	2.4	1.7	1.2	1.2
Proportion (%) of products with:					
(i) No more than one inrease in year	38	31	51	72	68
(ii) At least three increases in year	30	41	19	10	10
Average size of each notified increase (%)	6.8	7.4	7.1	6.2	6.3
Proportion (%) of increases which were:					
(i) Below 5%	44	39	37	37	36
(ii) Above 10%	21	21	19	17	16
Average total increase over year (%)	14.3	17.2	12.0	7.2	7.6
Increase in non-exempt RPI* over year (%) (with a lag of two months)	16.4	17.0	10.6	7.1	7.3

* See Appendix 4 - note that this covers imported goods which are not in the sample.

The average total increase over the year (i.e. approximately frequency x size) has fallen by about a half between the year to January 1977 and that to January 1979, from 14.3 to 7.6 per cent. Of this fall, about seven-eighths was contributed by the reduction in frequency and only one-eight by reduced size. (One possible explanation of this might be that in this period firms have tended to wait until a suitable size of increase is due before notifying increases rather than notifying whatever increase they could justify at fixed intervals). The tables in Appendix 6 show the figures for individual sectors.

Although the average size of increases stayed fairly steady over the period covered while the average frequency varied, this does not mean that individual products had similar sized increases. Table 5 below shows (over the whole period) how the average notified size varies with the number of increases in a year.

Table 5: Size of notified price increase for different frequencies

(percentages)

Number of notifications in year	0	1	2	3	4	5 and over
Average size of each increase	na	8.7	6.8	6.6	5.4	4.3
Average total increase over year	na	8.7	13.6	19.8	21.5	21.6
Proportion of products (by weight)	12.7	39.5	28.4	12.2	4.4	2.8

This shows that the average size of individual increases is smaller for the more frequently notified products although the total increase during the year tends to be larger. However, these averages for a given frequency are made up of products for which, by definition, the sizes of individual increases are positively correlated with those of total yearly increases and so we cannot say from the table that larger yearly increases are associated with smaller individual increases generally. In fact, the data from which these averages are calculated suggest the reverse - products with larger total yearly increases have on average higher individual increases as well as higher frequencies.

The analysis does not extend further back than 1976, so to see what was happening in earlier years we must look at the notifications for the larger companies that make up the Commission index. Any results based on these must be very tentative as they are affected by the methods of notification and requirements of the different Price Codes. Nevertheless, they suggest that during 1974 and 1975, more of the change in inflation was reflected in the size of increase rather than the frequency, but after that, as inflation began to decline, the roles were reversed.

Commodity prices

The Price Commission index of world Commodity prices rose by 4.2 per cent over the three months to April, mainly as a result of a 12.6 per cent increase in the index of non-ferrous metals. This brings the increase since April 1978 to 12.2 per cent. It should be noted that the index does not cover crude petroleum. Full details of the index and its components are given in Appendix 4.

Standing References

Fresh foods

In accordance with the standing reference on fresh foods, made in September 1973, the Commission keep the prices of fresh foods under continuous review and prepare a monthly report on them which is placed in the House of Commons Library[1]. For fruit and vegetables, fish, eggs and Danish bacon, these reports give the most recently available information on trends in wholesale and retail prices and changes in the aggregate value of distributors' gross margins. Retail prices are also given for carcase meats and poultry. A summary of the movements in gross margins and retail turnover is given in Appendix 5 Table 2 for the period 1975 to December 1978 for fish, January 1979 for fruit and vegetables, February 1979 for eggs and March 1979 for bacon.

The Commission index for fresh food prices, which covers the fresh foods mentioned above, rose by 5 per cent in the 3 months to April 1979. This rise was almost entirely due to increases in the cost of vegetables. Potato prices remained stable but with short supplies at the end of the winter cabbage and brussel sprouts prices rose by about 70 per cent. Compared with April 1978 prices have risen by 17.1 per cent with beef and vegetables being the main causes, but all items except pork, bacon and fruit rose by more than 10 per cent. Changes in the wholesale and retail prices of fresh foods, and the resulting changes made to the index by each item, are given in Appendix 5 Table 1 for both the 3 months and 12 months to April 1979.

A survey of fresh food prices was conducted in 27 medium sized towns (population between 12,000 and 20,000) and 38 small sized towns (population between 4,000 and 10,000) during the first two weeks of April; as in previous surveys the difference between those and the larger towns in our regular survey was not great. An index of fresh food prices in April, taking large towns and cities as 100, gives a value of 101.9 for medium sized towns and 100.7 for small sized towns.

Other price surveys

Regular sample surveys were conducted through the Regional Offices to monitor the prices of a standard loaf, of dairy products,

1. Copies of these reports are available on request from the Price Commission

and of bitter beer in free public houses. A survey was also started to monitor the retail prices of margarines during the period of transition to metric packs.

APPENDIX 1

ANALYSIS OF NOTIFICATIONS RECEIVED FEBRUARY - APRIL 1979.

MANUFACTURING AND SERVICE ENTERPRISES

Type of product	Number	Annual turnover involved £m	Average % price rise notified
Food and drink			
Grain milling, bread and flour confectionery, biscuits	26	917	5.3
Fish, meat, fruit and vegetable products	32	865	4.0
Other food	115	4,294	3.6
Drink	28	853	4.5
Total	201	6,930	4.0
Engineering, vehicles and metals			
Metal manufacture, metal goods nes*	144	1,912	5.1
Engineering	135	2,026	5.6
Vehicles, shipbuilding and aircraft	34	4,590	5.8
Total	313	8,528	5.6
Other manufactures			
Oil refining	13	6,211	6.5
Chemicals	332	2,343	10.5
Paper, printing and publishing	104	2,092	3.8
Textiles and clothing	59	482	7.5
Other	164	1,881	7.1
Total	672	13,009	6.9
Total manufactures	1,186	28,466	5.8
Services			
Catering and accommodation	28	711	4.8
Transport and communication	14	549	10.4
Other	35	566	4.6
Total	77	1,826	6.4
Water supply	5	56	8.1
Nationalised industry	9	7,573	8.0
Total, all products	1,277	37,921	6.3

*not elsewhere specified

APPENDIX 2

Price Commission Index *December 1974 = 100*

	1975	1976	1977	1978	1979
January	103.2	121.0	139.5	153.5	164.7
February	105.7	122.5	141.6	154.9	166.1
March	106.7	123.5	144.5	155.5	168.2
April	107.6	124.3	145.6	156.1	169.7
May	108.3	125.2	147.4	156.7	
June	109.7	127.5	148.5	157.5	
July	112.6	128.4	149.2	157.9	
August	113.6	129.8	149.6	158.3	
September	114.3	131.5	150.0	158.9	
October	115.9	134.4	150.8	159.7	
November	118.3	136.8	151.6	160.4	
December	119.8	138.5	152.9	162.0	

APPENDIX 3

Table 1: Analysis of the Retail Prices Index — Indices

		RPI*	Exempt component*	Non-exempt component	Commission Index
1975	January	81.6	75.5	84.0	85.3
	February	83.0	80.3	84.0	87.4
	March	84.6	82.7	85.2	88.2
	April	87.7	88.2	87.5	88.9
	May	91.3	89.9	91.9	89.6
	June	92.9	91.5	93.4	90.6
	July	93.8	91.2	94.8	93.0
	August	94.6	93.5	95.1	93.9
	September	95.5	93.9	96.0	94.5
	October	96.7	95.3	98.0	95.8
	November	97.9	98.3	97.8	97.8
	December	99.0	99.0	99.0	99.1
1976	January	100	100	100	100
	February	100.9	100.5	101.1	101.2
	March	101.3	100.9	101.4	102.1
	April	103.1	104.3	102.7	102.7
	May	104.5	105.1	104.2	103.5
	June	105.3	106.4	104.9	105.4
	July	106.2	107.7	105.7	106.1
	August	107.4	108.4	107.0	107.3
	September	108.4	110.2	107.8	108.7
	October	110.3	112.4	109.6	111.1
	November	111.7	112.8	111.3	113.1
	December	113.0	115.6	112.2	114.5
1977	January	115.8	117.6	115.1	115.3
	February	116.9	118.0	116.5	117.0
	March	118.1	118.3	118.1	119.5
	April	121.1	122.8	120.5	120.3
	May	122.3	122.5	122.3	121.8
	June	123.6	123.8	123.5	122.8
	July	124.3	124.3	124.4	123.3
	August	125.3	126.0	125.0	123.6
	September	126.2	126.3	126.1	124.0
	October	126.9	126.5	127.1	124.6
	November	127.5	127.0	127.7	125.3
	December	128.0	127.4	128.4	126.4
1978	January	128.9	129.5	128.7	126.9
	February	129.7	129.2	129.8	128.0
	March	130.4	129.7	130.6	128.6
	April	132.1	133.2	131.8	129.1
	May	132.9	134.2	132.4	129.6
	June	133.6	135.5	132.9	130.2
	July	134.6	137.4	133.7	130.6
	August	135.8	139.5	134.4	130.9
	September	136.4	140.4	135.0	131.3
	October	137.1	140.7	135.9	132.1
	November	138.1	142.7	136.4	132.6
	December	139.0	144.7	136.9	133.9
1979	January	140.4	148.1	137.8	135.9
	February	141.7	149.2	139.0	137.3
	March	142.7	149.9	140.1	139.0
	April	145.0	157.0	140.8	140.4

* excluding seasonal foods

APPENDIX 3

Table 2: Analysis of the Retail Prices Index

Six months changes annualized (%)

		RPI*	Exempt Component*	Non-exempt component	Commission Index
1975	July	32.1	46.6	27.6	19.0
	August	31.3	36.9	29.3	15.5
	September	27.5	28.9	26.3	14.8
	October	21.8	16.7	25.4	16.1
	November	14.9	19.5	13.3	19.3
	December	13.6	17.8	12.8	19.4
1976	January	13.6	20.1	11.3	15.5
	February	13.8	15.5	13.0	16.3
	March	12.6	15.5	11.6	16.6
	April	13.6	19.9	9.9	15.0
	May	13.9	14.3	13.6	12.0
	June	13.1	15.6	12.3	13.1
	July	12.9	16.0	11.7	12.6
	August	13.2	16.4	12.0	12.4
	September	14.5	19.2	13.0	13.5
	October	14.4	16.0	13.9	16.9
	November	14.2	15.2	14.1	19.3
	December	15.2	17.8	14.3	18.2
1977	January	18.1	18.5	18.0	18.2
	February	18.4	18.6	18.6	19.0
	March	18.7	15.3	20.0	20.8
	April	19.7	18.6	20.1	17.4
	May	20.0	17.8	20.7	16.1
	June	19.6	14.8	21.2	15.0
	July	15.9	12.1	17.4	14.3
	August	14.9	14.0	15.1	11.5
	September	14.1	13.8	14.0	7.8
	October	9.8	6.1	11.2	7.3
	November	8.7	7.5	9.1	5.8
	December	7.4	6.0	8.1	6.0
1978	January	7.2	8.2	6.8	5.9
	February	7.2	5.1	7.8	7.2
	March	6.8	5.5	7.3	7.5
	April	8.4	10.9	7.6	7.2
	May	8.6	11.8	7.5	6.8
	June	8.9	13.1	7.3	6.1
	July	9.1	12.6	7.9	5.9
	August	9.6	16.5	7.2	4.5
	September	9.6	17.2	6.8	4.3
	October	7.7	11.6	6.3	4.7
	November	8.0	13.0	6.1	4.9
	December	8.2	14.0	6.1	5.7
1979	January	8.8	16.3	6.2	8.4
	February	8.9	14.5	6.9	10.0
	March	9.3	14.0	7.7	12.0
	April	12.3	25.5	7.6	13.0

* excluding seasonal foods.

APPENDIX 3

Table 3: Analysis of the Retail Prices Index

			Twelve month changes(%)		
		RPI*	Exempt Component*	Non exempt Component	Commission Index
1976	January	22.5	32.5	19.1	17.3
	February	21.6	25.1	20.3	15.9
	March	19.8	22.0	19.0	15.7
	April	17.6	18.3	17.4	15.6
	May	14.4	16.9	13.4	15.6
	June	13.3	16.4	12.3	16.2
	July	13.2	18.1	11.5	14.0
	August	13.5	16.0	12.4	14.3
	September	13.6	17.3	12.3	15.0
	October	14.0	17.9	11.9	15.9
	November	14.0	14.8	13.8	15.6
	December	14.1	16.7	13.3	15.6
1977	January	15.8	17.6	15.1	15.3
	February	15.8	17.5	15.3	15.6
	March	16.6	17.2	16.4	17.1
	April	17.4	17.7	17.4	17.1
	May	17.1	16.5	17.4	17.7
	June	17.4	16.3	17.7	16.5
	July	17.0	15.4	17.7	16.2
	August	16.7	16.3	16.9	15.2
	September	16.4	14.6	17.0	14.1
	October	15.0	12.2	15.9	12.2
	November	14.2	12.5	14.8	10.8
	December	13.3	10.3	14.4	10.4
1978	January	11.3	10.1	11.8	10.0
	February	11.0	9.5	11.4	9.3
	March	10.4	9.6	10.6	7.6
	April	9.1	8.5	9.4	7.3
	May	8.6	9.6	8.3	6.3
	June	8.1	9.5	7.7	6.0
	July	8.3	10.5	7.5	5.9
	August	8.4	10.7	7.5	5.9
	September	8.2	11.2	7.1	5.9
	October	8.1	11.0	7.0	5.9
	November	8.3	12.1	6.8	5.9
	December	8.5	13.6	6.7	5.9
1979	January	9.0	14.4	7.1	7.1
	February	9.2	15.5	7.1	7.2
	March	9.5	15.6	7.3	8.1
	April	9.7	17.9	6.8	8.7

*excluding seasonal foods.

Appendix 3

Analysis of the Retail Prices Index

Chart I - Six months' changes at annual rate (%)

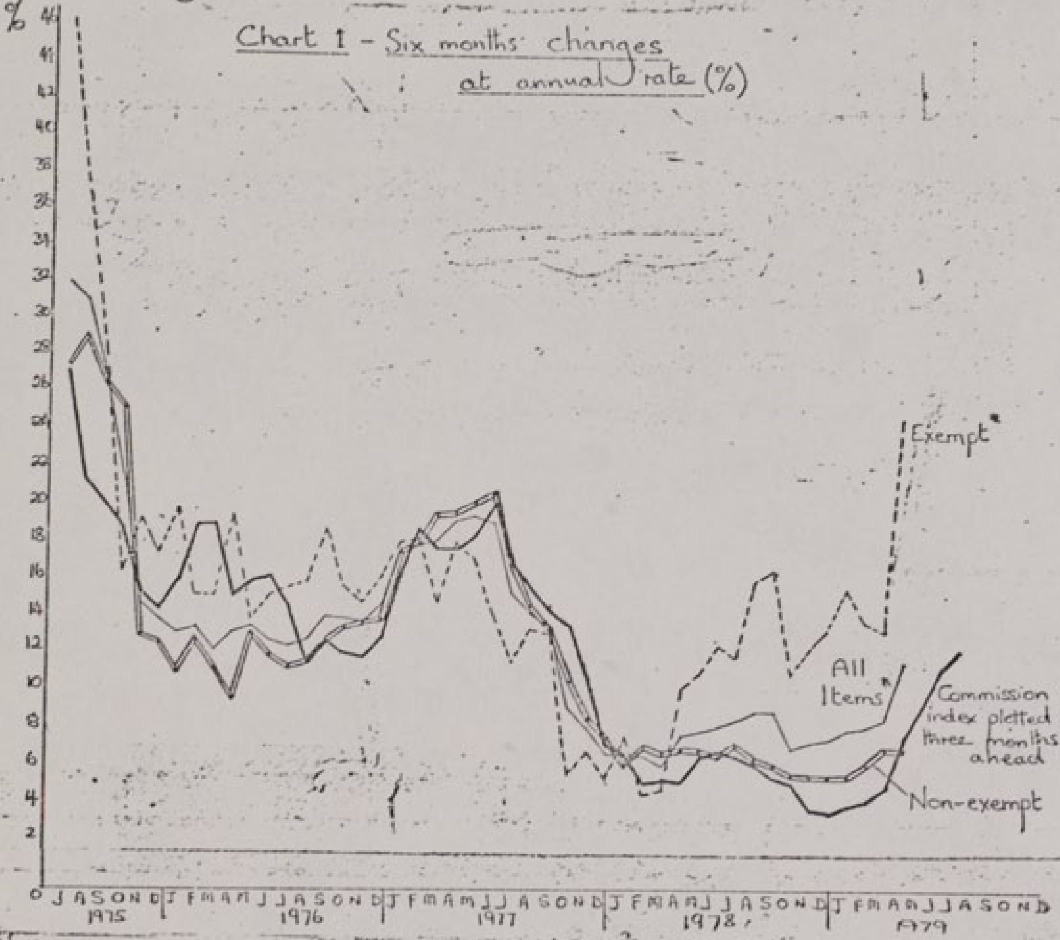
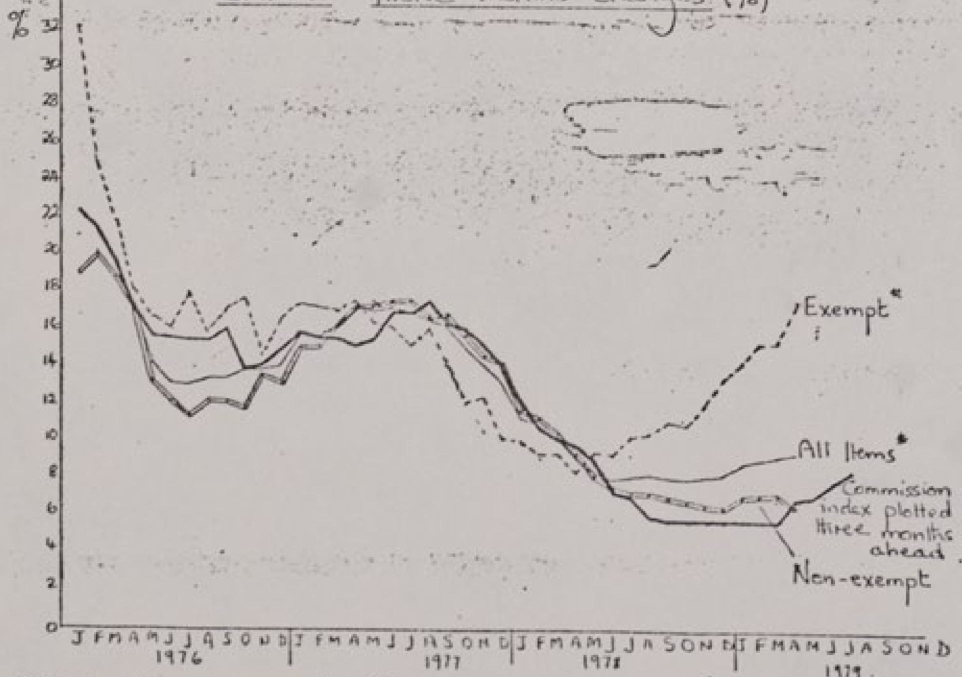


Chart 2 - Twelve-months changes (%)



* Excluding seasonal food

Appendix 4

World Commodity prices

Basic materials imported into the United Kingdom (excluding crude petroleum)

(1970 = 100)

	Non-ferrous metals	Fibres	Food materials	Miscel-laneous	All items
1976					
1st quarter	137.0	251.6	234.2	193.2	192.9
2nd quarter	170.3	291.9	269.1	237.4	229.5
3rd quarter	183.9	334.5	277.5	255.1	245.0
4th quarter	183.4	368.2	305.3	290.3	264.9
1977					
January	194.3	348.0	379.6	278.4	272.6
February	201.1	354.0	360.3	281.6	286.9
March	207.7	354.9	410.6	301.7	310.5
April	199.3	353.1	426.0	299.1	312.1
May	196.5	343.3	393.1	295.1	297.9
June	190.6	328.1	366.9	280.5	282.4
July	191.3	323.0	346.0	263.7	271.8
August	187.3	310.0	318.5	258.2	258.5
September	186.6	298.2	309.8	268.6	255.9
October	159.3	297.0	307.8	267.3	255.8
November	186.7	286.7	299.9	262.4	250.7
December	189.1	285.4	298.2	261.6	250.2
1978					
January	181.8	280.6	303.0	249.5	246.4
February	175.7	282.8	294.5	250.8	241.7
March	177.5	290.4	303.7	265.5	249.1
April	180.3	302.5	314.2	267.0	255.3
May	185.3	312.2	319.8	287.8	263.9
June	188.3	316.0	319.0	302.0	267.7
July	184.6	305.9	297.3	285.5	254.8
August	190.7	300.3	290.6	303.6	257.5
September	193.4	299.2	305.8	312.5	265.2
October	200.4	298.6	311.1	321.7	271.3
November	200.2	306.4	312.8	326.0	273.4
December	199.6	305.0	312.4	318.2	271.4
1979					
January	206.5	298.3	311.7	328.5	274.9
February	223.6	305.2	319.9	352.4	288.9
March	230.5	313.0	313.4	340.1	287.9
April	232.6	305.6	305.4	346.6	286.4
Percentage changes:					
12 mths to April	29.0	1.0	-2.8	29.8	12.2
6 mths to April	16.1	2.3	-1.8	7.7	5.6
3 mths to April	12.6	2.4	-2.0	5.5	4.2

Source: Price Commission

Appendix 5

Table 1: Percentage Price Changes for Selected Fresh Foods over three months and year to April 19[illegible]

	January - April 1979			April 1978 - April 1979		
	Wholesale	Retail		Wholesale	Retail	
	% price change	% price change	% points in index	% price change	% price change	% points in index
Carcase meat	n.a.	+2	+0.6	n.a.	+14	+5.5
Beef	n.a.	+2	+0.4	+5	+15	+3.1
Lamb (home killed)	n.a.	+7	+0.3	n.a.	+15	+0.7
Lamb (imported)	n.a.	-2	-0.1	+6	+16	+0.8
Pork	- 4	-	....	+1	+10	+0.9
Frozen Chicken	+ 8	+4.3	+0.4	+9	+12	+1.3
Bacon	- 4	-	....	+3	+ 7	+0.7
Eggs	-11	+3	+0.2	+12	+15	+1.2
Fish (1)	n.a.	-3	-0.1	n.a.	+11	+0.6
Fruit and Vegetables(2)	n.a.	+14	+3.9	n.a.	+29	+7.9
Potatoes	+24		....	+8	+28	+1.6
Other vegetables	n.a.	+31	+3.8	n.a.	+57	+6.5
Fruit	n.a.	+1	+0.1	n.a.	- 2	-0.2
% change in fresh food index			+5.0			+17.1

note In preparation of these statistics each item has been given a weight reflecting its relative importance in the household budget.

(1) Cod, haddock, plaice, herring, kippers.

(2) Potatoes, Brussels sprouts, cabbages, cauliflowers, carrots, onions, tomatoes, dessert and cooking apples, oranges, bananas.

.... denotes 'less than 0.05'

\- denotes 'less than 0.5'

80

Appendix 5

Table 2

Aggregate gross margins in distribution and retail turnover 1975-79

	Aggregate gross margins(1)		Retail* turnover (index)	Volume* (index)
	Cash* (index)	Percentage of retail turnover		
Fruit and Vegetables				
1975	100	37	100	100
1976	111	35	118	80
1977	113	37	115	86
1978(P)	123	42	108	95
1979Jan(P)	145	46	118	73
Fresh Fish				
1975	100	62	100	100
1976	115	58	122	101
1977	122	54	141	97
1978	187	58	200	139
Eggs sold through packing stations(2)				
1975	100	40	100	100
1976	103	38	113	99
1977	116	38	125	95
1978	122	43	116	94
1979Jan/Feb	140	39	148	98
Danish bacon (loose)				
1975	100	21	100	100
1976	115	22	108	91
1977	126	24	111	91
1978	134	21	133	102
1979 Jan/March	141	24	125	90

(P) Provisional

* 1975 = 100

(1) Between wholesale market and retail prices for fruit and vegetables producer and retail prices for fish and eggs, and first hand and retail prices for Danish bacon.

(2) Class 'A' hen eggs

Appendix 5

Table 3: Fresh food prices in medium and small towns compared with cities, April 1979

Indices of average prices(1) (cities=100)

Fresh food group	Cities	Medium towns(2)	Small towns(3)
Carcase meat	100	103.2	100.8
Poultry	100	103.0	100.3
Bacon	100	101.8	99.7
Eggs	100	98.4	96.6
Fish	100	102.2	102.2
Fruit	100	97.6	103.6
Vegetables	100	101.8	99.6
All items	100	101.9	100.7

(1) No allowance has been made for changes in quality between the cities, medium and small towns.

(2) Based on a sample of 27 towns with population between 12,000 and 20,00[illegible]

(3) Based on a sample of 38 towns with population between 4,000 and 10,00[illegible]

Table 4: Fresh food prices in medium and small towns compared with cities, July 74 to April 79

Indices of average prices (1)

Date		Cities	Medium towns(2)	Small towns(3)
Sept	1974	100	101.0	101.3
April	1975	100	101.3	99.3
Sept	1975	100	102.1	100.8
March/Apr	1976	100	101.6	101.4
Sept/Oct	1976	100	100.6	100.8
Feb/March	1977	100	100.9	99.7
Oct	1977	100	100.7	100.9
April	1978	100	101.7	102.3
Sept/Oct	1978	100	99.7	100.2
April	1979	100	101.9	100.7

(1) No allowance has been made for changes in quality between cities, medium and small towns.

(2) Based on a sample of 27 towns with population between 12,000 and 20,00[illegible]

(3) Based on a sample of 38 towns with population between 4,000 and 10,000

Appendix 6

Frequency and size of price increases

The tables in the text (pages 68 + 69) and in this appendix give the results of an analysis of 328 consumer items which have been notifiable to the Commission since 1976. In each case the size and date of any notified increase has been recorded for the three year period ending 31 January 1979. Price reductions were ignored. For tobacco, alcohol and petrol any increases due to duty changes have been excluded and the size of any increase has been recorded on a duty-exclusive basis. Notifications on cigarettes involving a reduction in tobacco content have been treated as price increases. In calculating all item results, individual subsectors have been weighted together in such a way as to make them representative of that part of the retail price index not exempt from notification - i.e. excluding imports, fresh foods, mortgages etc.

In some cases it was not possible to find as many notified products as would have been desirable, so a smaller number was used but given a greater weight; in others, one type of product had to stand proxy for another similar one when companies making the latter were too small to notify. These problems were generally insignificant; only clothing and footwear and meals out were adversely affected.

The average frequency for each of the 12 month periods ending in January and July for 1977 and 1978 and January 1979 is shown for different sectors and for all items in Table 1. Tables 2 and 3 shows for each sector the proportion of products with at most one notification per year and with three or more per year.

Table 4 shows the average increase per notification in each sector during each year; the proportions of notifications below 5% and above 10% are shown in table 5. The total increase during the year is given in table 6.

It is important to note that this only deals with notifiable products and so is not representative of the 39 per cent of the RPI that is exempt from notifications. Moreover, within the remaining 61 per cent, only the products of large firms are covered. Some price increases are not notifiable - for example duty changes and the effect of the Common Agricultural Policy - and retailers may decide to vary their prices independently of those of their suppliers.

For all these reasons the frequencies and sizes are shown in the analysis need not be representative of the price increases of the average item of consumer spending.

Appendix 6

Table 1: Average frequency of notifications received

Sector of the RPI	Controlled weight in RPI	Number in each sample	January 77	July 77	January 78	July 78	January 79	Average
Food	103	78	2.4	3.3	2.4	1.5	1.4	2.0
Drink	68	24	1.5	2.1	1.7	1.0	1.1	1.4
Tobacco	48	39	2.7	2.3	1.0	1.0	1.0	1.6
Durable Household goods	48	36	2.1	2.2	1.7	1.6	1.2	1.7
Housing	26	17	2.5	2.7	1.7	1.2	1.0	1.8
Clothing and footwear	68	33	1.4	1.5	1.3	1.0	1.3	1.3
Fuel and light	48	6	3.7	3.9	2.8	2.5	1.8	2.8
Transport and vehicles	56	26	2.6	2.5	1.1	0.4	1.1	1.6
Miscellaneous goods	51	36	1.7	1.6	1.2	0.7	0.9	1.3
Miscellaneous services	48	25	0.8	1.0	1.0	0.6	0.5	0.8
Meals out	47	8	1.9	1.9	1.8	1.2	1.9	1.8
All items	611	328	2.1	2.4	1.7	1.2	1.2	1.7

Appendix 6

Table 2 Percentage of goods and services with at most one notified increase in the year

Year to end	With no notification					With no more than one notification				
	Jan 77	July 77	Jan 78	July 78	Jan 79	Jan 77	July 77	Jan 78	July 78	Jan 79
Food	7	0	7	14	22	27	10	18	59	60
Drink	7	0	9	0	13	50	20	34	85	82
Tobacco	5	5	10	13	13	26	21	87	95	95
Durable household goods	0	8	10	5	18	23	30	32	52	59
Housing	0	0	5	26	16	37	21	47	74	79
Clothing and footwear	2	0	4	29	17	65	64	67	71	54
Fuel and light	0	0	0	38	38	13	0	38	38	38
Transport and vehicles	0	3	3	72	8	20	21	85	90	85
Miscellaneous goods	6	5	20	33	22	50	53	67	97	92
Miscellaneous services	52	38	38	62	62	79	72	72	79	86
Meals out	12	0	0	12	0	25	38	38	62	25
All items	8	5	9	26	21	38	31	51	72	68

APPENDIX 6

Table 3 Percentage of goods and services with three or more notified increases in the year

	At least three notifications					At least four notifications				
	Jan 1977	July 1977	Jan 1978	July 1978	Jan 1979	Jan 1977	July 1977	Jan 1978	July 1978	Jan 1979
Food	41	70	47	19	19	21	39	13	3	4
Drink	7	27	12	0	4	0	3	0	0	0
Tobacco	41	38	3	3	3	31	21	0	0	0
Durable Household Goods	29	34	14	14	0	8	19	0	2	0
Housing	42	58	16	16	5	21	21	5	0	0
Clothing and footwear	5	11	5	0	0	0	4	0	0	0
Fuel and light	64	64	62	62	62	62	62	62	62	0
Transport and vehicles	58	66	8	0	0	13	8	0	0	0
Miscellaneous goods	17	22	3	0	0	6	0	0	0	0
Miscellaneous services	3	7	3	3	0	0	0	0	0	0
Meals out	25	38	12	0	12	0	0	0	0	0
All items	30	40	19	10	10	14	17	7	6	0

APPENDIX 6

TABLE 4 MEAN SIZE OF NOTIFIED INCREASES (%)

	Year to end January 1977	July 1977	January 1978	July 1978	January 1979
Food	8.2	9.0	8.8	6.5	5.8
Drink	5.6	4.8	6.7	7.9	7.2
Tobacco	4.2	5.7	5.1	6.3	6.2
Durable household goods	6.9	8.5	6.2	5.4	5.9
Housing	6.3	8.0	8.7	7.4	7.5
Clothing and footwear	9.3	10.3	9.4	7.0	7.3
Fuel and light	4.8	3.7	3.5	3.7	4.5
Transport and vehicles	8.7	7.6	7.3	9.5	6.4
Miscellaneous goods	8.5	9.7	9.6	9.3	8.7
Miscellaneous services	7.6	8.4	8.4	7.5	7.8
Meals out	6.0	6.3	5.9	5.8	5.3
All Items	6.8	7.2	7.1	6.2	6.3

Appendix 6

Table 5 Percentage of notified increases below 5% and 10% or over

	Below 5%					10% or over				
Year to end	Jan 1977	July 1977	Jan 1978	July 1978	Jan 1979	Jan 1977	July 1977	Jan 1978	July 1978	Jan 1979
Food	26	30	32	34	42	21	26	25	18	12
Drink	75	69	35	8	22	6	8	6	10	8
Tobacco	77	46	37	27	29	5	6	0	0	0
Durable Household goods	31	29	38	36	29	16	16	9	3	7
Housing	35	23	27	27	20	17	27	36	23	25
Clothing and footwear	24	11	14	33	20	39	52	44	20	20
Fuel and light	67	82	88	75	67	24	9	4	25	33
Transport and vehicles	42	37	30	13	30	29	26	28	20	29
Miscellaneous goods	23	20	21	16	13	33	37	36	44	42
Miscellaneous services	29	28	15	28	40	29	31	30	28	27
Meals out	33	19	29	50	53	13	6	7	10	7
	—	—	—	—	—	—	—	—	—	—
All items	44	39	37	37	36	21	21	19	17	16

Appendix 6

Table 6 Total notified increase in the year (%)

Year to	January 1977	July 1977	January 1978	July 1978	January 1979
Food	19	30	21	10	8
Drink	8	10	11	8	8
Tobacco	11	13	5	6	6
Durable Household goods	14	19	11	9	7
Housing	16	22	15	9	8
Clothing and footwear	13	16	12	7	9
Fuel and light	18	14	10	9	8
Transport and vehicles	22	19	8	4	7
Miscellaneous goods	15	16	11	6	7
Miscellaneous services	6	9	8	5	4
Meals out	11	12	10	7	10
All items	14.3	17.2	12.0	7.2	7.6

Appendix 7 Notifications and Investigations August 1977-April 1979

Table 1: Notifications received August 1977 - April 1979

Type of product	Number	Annual turnover involved £m	Average price rise notified %	£m	Share of total %
Food and drink					
Grain milling, bread and flour confectionery, biscuits	187	6,674	6.3	421	4
Fish, meat, fruit and vegetable products	284	6,329	3.1	198	2
Other food	552	16,369	3.6	597	6
Drink	189	10,985	5.5	604	6
Total	1212	40,360	4.5	1820	19
Engineering, vehicles and metals					
Metal manufacture, metal goods nes *	713	10,029	5.6	567	6
Engineering	856	11,891	5.4	639	7
Vehicles, shipbuilding and aircraft	274	24,767	4.5	1122	12
Total	1843	46,685	5.0	2328	24
Other manufactures					
Oil refining	27	13,959	7.5	1040	11
Chemicals	1369	11,490	6.6	762	8
Paper, printing and publishing	447	8,629	4.3	373	4
Textiles and clothing	319	3,547	6.6	235	2
Other	819	14,601	5.0	728	7
Total	2981	52,225	6.0	3139	32
Total manufactures	6036	139,270	5.2	7287	75
Services					
Catering and accommodation	124	3,340	5.1	169	2
Transport and communication	97	2,602	7.7	200	2
Other	211	2,326	9.5	220	2
Total	432	8,269	7.1	589	6
Water supply / Nationalised industry	124	34,311	5.4	1844	19
Total all products	6592	181,848	5.3	9719	100

* Not elswhere specified

APPENDIX 7

Table 2: Investigations started August 1977 - April 1979

Section 4 investigations:	Number	Annual turnover involved £m	Average price rise notified %	£m	Share of total %
Type of product					
Food and Drink					
Grain milling, bread and flour confectionery, biscuits	4	798	5.5	44	3
Fish, meat, fruit and vegetable products	-	-	-	-	-
Other food	3	525	3.4	18	1
Drink	3	1870	7.3	137	8
Total	10	3193	6.2	199	12
Engineering, vehicles and metals					
Metal manufacture, metal goods nes*	1	346	10.1	35	2
Engineering	2				
Vehicles, shipbuilding and aircraft	-	-	-	-	-
Total	3	346	10.1	35	2
Other manufactures					
Oil refining	4	6867	7.1	489	30
Chemicals	7	580	5.1	30	2
Paper, printing and publishing	2				
Textiles and clothing	-	-	-	-	-
Others	6	2085	4.7	97	6
Total	19	9531	6.5	616	38
Total manufactures	32	13070	6.5	849	52
Services	3	206	7.5	15	1
Water supply / Nationalised industry	8	11487	6.6	756	47
Total, all products	43	24763	6.5	1621	100
Section 5 investigations	4				
Total	47				

*not elsewhere specified

Notes to Appendices

In Appendices 1 and 7 and Table 1, the turnover for the previous twelve months is used to weight the percentage increases. For small notifications where the turnover is not required to be given explicitly, it is derived from the yield and percentage increase. The price increases shown are those notified and do not take into account modifications, withdrawals or the effect of investigations.

Appendix 2 represents monthly figures of the Commission index of notified increases. The monthly change in the Commission index is calculated by relating the net yield in that month of products of the larger (formerly Category I) enterprises to the estimated total turnover of all such products.

For notifications that are subject to investigation, the amounts of any interim increases granted within two weeks of the decision to investigate are ascribed to the months of the original notifications subsequent interim increases are ascribed to the months in which they occur, while the final outcomes are ascribed to the months in which the reports are sent to the Secretary of State. For all other notifications the yields, after taking account of modifications and withdrawals, are ascribed to their months of receipt. Appendix 2 is the basis of Tables 2 and 3 which show six monthly changes expressed as annual rates and twelve-monthly changes in the index. The index numbers in the table from January 1975 have been rebased on December 1974 and incorporate improvements on the methods of estimating turnover used for the period April 1973- December 1974. Index numbers based on the previous March 1973 base from that date to May 1977 were published in the Report for 1 March - 31 May 1977, with revisions and figures to July in the Report for 1 June - 31 July 1977.

Appendix 3 gives the results of analysing the retail prices index into two components, one containing all items that are exempt from notifications (e.g. fresh foods, mortgage interest), and the other covering the rest. Full details of the analysis were given in Annex 2 to the Report for 1 August - 31 October 1978.

Appendix 4 gives the Commission index of prices of the main world-traded commodities excluding petroleum. The constituent prices are weighted to reflect their importance to the UK economy in 1970. Index numbers refer to the average prices during the month concerned.

In Appendix 5, the margins shown in table 2 are those between wholesale market and retail prices for fruit and vegetables, between producer and retail prices for fish and eggs and between first hand and retail prices for Danish bacon. Tables 3 and 4 give commodity indices (with items weighted to reflect national average expenditure patterns) which show relative average costs of fresh foods in the medium towns and small towns compared with those in the cities which are used in the regular price collections. Indices are shown in Table 3 for different fresh foods for April 1979 and in Table 4 for all items for particular months between September 1974 and April 1979.

Appendix 7 shows the total of all notifications received and investigations started since the new Commission began in August 1977. The amounts are as originally notified and no allowance has been made for modifications, withdrawals or the effects of investigations. The shares of different sectors are based on the yields of the notifications.

In some tables in the Report and Appendices, rounding may lead to inconsistencies between the sums of consituent parts and totals

PRICE COMMISSION REPORTS SINCE AUGUST 1977

Reports to Parliament

This is the seventh Report to the Secretary of State for Prices and Consumer Protection of the Commission's activities since the implementation of the Price Commission Act 1977 on 1 August 1977.

Reports under references

Those prior to August 1977 are listed on page 33 of the Price Commission Report for the period 1 November 1977 to 31 January 1978.

To this list should be added:

32 Tea Prices (February 1978)

33 Decorative Paint (April 1978)

Reports on Investigations by the Price Commission under section 4 or 5 of the Price Commission Act 1977

1 Fuel Cost Adjustment for the Supply of Electricity, HC 133 (1978)

2 Barclays Bank Ltd charges for Money Transmission Services to the Post Office, the British Gas Corporation and the Electricity Council HC 134 (1978)

3 Metal Box Ltd - Open Top Food and Beverage Cans and Aerosol Cans, HC 135 (1978)

4 Fisons Ltd Agrochemical Division - Agrochemical and Horticultural Products, HC 151 (1978)

5 UG Glass Containers Ltd - Prices of Glass Containers, HC 170 (1978)

6 Tate & Lyle Refineries Ltd - Sugar and Syrup Products, HC 224 (1978)

7 British Railways Board - Increases in Passenger Fares, HC 225 (1978)

8 Margins of Coal Merchants in West Wales, HC 214 (1978)

9 The Ever Ready Company (Great Britain) Limited - Dry (Primary) Batteries, HC 284 (1978)

10 Cadbury Schweppes Foods Ltd - Grocery Products, HC 293 (1978)

11 Imperial Chemical Industries Ltd - Sodium Carbonate, HC 332 (1978)

12 Weetabix Ltd - Cereal and Muesli Products, HC 336 (1978)

13 Allied Breweries (UK) Ltd - Brewing and Wholesaling of Beer and Sales in Managed Houses, HC 415 (1978)

14 Southalls (Birmingham) Ltd - Sanitary Protection and Other Hygiene Products, HC 436 (1978)

15 IPC Magazines Ltd - Increases in Cover Prices, HC 481 (1978)

16 Thames Water Authority - Water, Sewerage and Environmental Services, HC 496 (1978)

17 The Associated Portland Cement Manufacturers Ltd - Increases in Cement Prices, HC 495 (1978)

18 South of Scotland Electricity Board - Price Increases for the Supply of Electricity, GC 535 (1978)

19 London Transport Executive - Increases in Passenger Fares, HC 594 (1978)

20 CPC (United Kingdom) Ltd - Increases in the Prices of Maize Starch, Glucose Syrups, Starch-derived and Glucose-derived Products, HC 613 (1978)

21 British Gypsum Ltd - Increases in the Prices of Gypsum-related Products, HC 663 (1978)

22 Trust Houses Forte Hotels Ltd - Charges for Hotel Services in the United Kingdom, HC 651 (1978)

23 Lever Brothers Ltd - Soaps, Detergents and Related Products, HC 657 (1978)

24 Royal Doulton Tableware Ltd - China and Earthenware Tableware and Ornamental Items, HC 658 (1978)

25 Procter and Gamble Ltd - Soaps and Detergents, HC 1 (1978)

26 Imperial Tobacco Ltd - Cigarettes and Cigarillos, HC 28 (1978)

27 General Paper and Box Manufacturing Company Ltd and Rizla Ltd - Cigarette Paper Booklets, Filter Tips and Accessories, HC 50 (1978)

28 Air Products Ltd - Merchant Industrial Gases, HC 124 (1978)

29 Dollond and Aitchison Group - Prices, Charges and Margins for Optical Products, HC 134 (1978)

30 Thermos Ltd - Vacuum Ware, HC 135 (1979)

31 Butlins Ltd - Tariffs of the Main Holiday Centres in the United Kingdom, HC 181 (1979)

32 BOC Limited - Compressed Permanent Gases and Dissolved Acetylene sold in Cylinders, Cylinder Rentals and Fixed Charges, HC 223 (1979)

33 The Daily Telegraph Ltd - Cover price of 'The Daily Telegraph', HC 241 (1979)

34 Perkins Engine Company - Diesel, Gasoline, Reconditioned and 'Short' Engines, HC 345 (1979)

35 The Rugby Portland Cement Company Ltd - Cements, HC 346 (1979)

Reports by the Price Commission under section 11 of the Price Commission Act 1977

1 Prices, costs and margins in the importation and distribution of bacon, HC 229 (1978)

2 Banks: charges for money transmission services, HC 337 (1978)

3 Prices, costs and margins in the production and distribution of compound feeding stuffs for cattle, pigs and poultry, HC 338 (1978)

4 Prices, costs and margins in the production and distribution of proprietary non-ethical medicines, HC 469 (1978)

5 Prices, costs and margins in the distribution of footwear in the UK, HC 498 (1978)

6 Prices, costs and margins in the publishing, printing and binding, and distribution of books, HC 527 (1978)

7 The pricing of beds, HC 650 (1978)

8 Charges, costs and margins in the hiring of television sets for domestic use, HC 658 (1978)

9 Prices, costs and margins in the provision of taxicab and private hire car services, HC 655 (1978)

10 Road Haulage Industry, HC 698 (1978)

11 Prices, costs and margins in the distribution of jeans, HC 67 (1978)

12 Prices, costs and margins in the production and distribution of toothpaste, HC 125 (1978)

13 Prices, costs and margins in the production and distribution of portable electric tools, HC 204 (1979)

14 Prices, costs and margins of metal doors and windows for domestic properties, HC 340 (1979)

15 Prices, costs and margins in the distribution of video tape recorders and their accessories, HC 331 (1979)

CONFIDENTIAL

Ec Pol 2

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

Prime Minister

To note.

From the Secretary of State

The Rt Hon Peter Walker MP
Minister of Agriculture, Fisheries and Food

15 May 1979

Dear Peter.

PRICE COMMISSION INVESTIGATIONS INTO RHM BAKERIES LIMITED AND ALLIED BAKERIES LIMITED

Following discussions between your officials and mine, I understand that you agree that the Price Commission investigations into the two big bakery companies should be terminated forthwith. I therefore propose to announce this decision at the Press Conference I will be taking this afternoon after the main outlines of our new approach on Competition on Prices has been announced to the House by the Prime Minister; and I will be informing the two companies very shortly beforehand.

As to other Price Commission enquiries which are still in progress, I shall explain that, as we agreed at the E Committee yesterday, the three current Price Commission examinations into car spares, children's toys and games and estate agents will be completed. I will also say that we have no present plans to terminate other investigations of individual companies which are still in train, apart from the two bakery cases: this will not preclude us from putting a stop to any of these investigations at a later stage, if we decide to do so. My own view is, however, that we should let the Price Commission finish the remaining investigations: 5 of the 8 outstanding reports (excluding the two bakery cases) are in any case due for completion within the next 8 days. Moreover, the decision whether or not to act on any recommendations which the Price Commission may make rests entirely with Ministers.

I am sending copies of this letter to the Prime Minister, to our other colleagues on the E Committee, and to Sir John Hunt.

Yours ever

John.

JOHN NOTT

CONFIDENTIAL

Economic Policy 2

HOUSE OF LORDS,
SW1A 0PW

Prime Minister

A bit late!

TL

PRIME MINISTER

Price Commission

1. The present exchange between colleagues shows that, as between amendment and abolition there are arguments both ways. However, I think we must take care how we approach differences of opinion of this sort. We must surely try to avoid the instant politics of our predecessors.

2. Surely the correct approach is (i) An official paper giving the facts and implications of each alternative course, followed by (ii) discussion in an appropriate Committee of the Cabinet, followed by (iii) in the event of disagreement, a paper submitted for decision by the Cabinet setting out the rival views and arguments. We must stand by proven and well established procedures.

3. I am copying this minute to Cabinet colleagues and to Sir John Hunt.

H. of St. M.

MT.

14 May 1979 (received at No. 10 on 16 May)

TL.

Econ. Pol.

CONFIDENTIAL

Ref. A09540

PRIME MINISTER

Future of the Price Commission

(E(79) 2)

(A minute to you from Mr Nott of 7 May;
your Private Secretary's reply of 9 May;
and minutes to you from Sir Geoffrey Howe of 9 May
and Sir Keith Joseph of 10 May are also relevant)

BACKGROUND

The Conservative Manifesto said: "In order to ensure effective competition and fair pricing policies, we will review the working of the Monopolies Commission, the Office of Fair Trading and the Price Commission, with the legislation which governs their activities".

Flag A
Flag B

2. In his memorandum (E(79) 2) - which elaborates on his minute to you of 7th May, Mr. Nott proposes the very early introduction of a short Bill to abolish the Price Commission, whilst providing new powers for the Director General of Fair Trading to investigate price issues of major concern, and the retention of reserve powers of direction by the Secretary of State. These arrangements would be intended to provide means of restraining excessive price increases by nationalised industries - a matter about which Sir Keith Joseph is known to be concerned. And it is this course of action which Sir John Methven is known to favour.

3. Mr. Nott's Memorandum also considers the following alternatives:-

(a) The immediate abolition of the Price Commission, coupled with temporary powers for the Secretary of State to refer major price issues to ad hoc boards until the workings of the Office of Fair Trading and the Monopolies Commission have been reviewed.

(b) The retention of the Price Commission - for the time being at least - but abolishing its power to freeze prices during an investigation. The Secretary of State for Trade would however have new powers to roll back prices in the event of an adverse report on the Commission. This is the option preferred by Mrs. Oppenheim, and was your own original preference. But Sir Geoffrey Howe has said that he does not think it goes nearly far enough. However, in his paper Mr. Nott goes further than in his earlier minute in proposing substantial reductions in the Commission's staff (to reduce the number of enquiries they could tackle); and to stop references which he has the power to make for examinations of sectors of industry.

Flag C

Flag D

Sir Keith Joseph prefers immediate abolition of the Commission but without reserve powers for ad hoc investigations, whilst Sir Geoffrey Howe favours administrative action to curb the Commission's activities until its future can be decided in relation to the functions of the Monopolies Commission and the Office of Fair Trading.

HANDLING

The Chancellor will not be present - away in Brussels.

4. You will want Mr. Nott to introduce his paper. After that, you might invite the Committee, starting with [Sir Geoffrey Howe] Mr Biffen and Sir Keith Joseph, to discuss the following three major issues in turn -

(i) Do we know enough to abolish the Price Commission without waiting for the general review?

(ii) Options for immediate action.

(iii) Whether to stop investigations now in progress.

Do we know enough to abolish the Price Commission without waiting for the review?

Flag B

Flag C

5. Mr. Nott's minute to you of 7th May implied that this question has been discussed informally and received the answer "yes". This is certainly the answer given by Sir Keith Joseph in his minute to you of 10th May. If you know that the Committee are all agreed on this point, you may want simply to put it on the record. But it raises some important questions. Would the Monopolies Commission and the Secretary of State's reserve powers give sufficient powers to restrain monopolies (including nationalised industries) from reaching excessive pay settlements and simply passing the costs on to the consumer? If the general review suggested having a revamped Monopolies Commission, would you want it to be notified of proposed price increases by the larger

companies? If so, might it not be a pity to abolish the Price Commission now only to reintroduce something rather like it later on? Even if the answer is that you are not sure, would it be prudent to go for immediate abolition? If you feel that this point has not been fully discussed already, you might ask Sir Geoffrey Howe to speak first, followed by Sir Keith Joseph in view of their minutes to you, and then see what other members of the Committee think.

Options for immediate action

6. In addition to Mr. Nott's three options (paragraph 5(a), (b) and (c), and Sir Keith Joseph's variant on 5(a), there is Sir Geoffrey Howe's preference for curbing the Commission's activities by administrative action pending the review, with a single piece of legislation thereafter.

7. Clearly the first two options (5(a) and (b)) apply only if the Committee is confident that it has all the information that it needs to decide to abolish the Price Commission without waiting for the general view. The other two options are available in any circumstances.

8. If you decide that you do not need the review first, there is a basic political choice between abolition now and abolition later. Mr. Nott and Sir Keith Joseph are on record as favouring abolition now. This is also Sir John Methven's preference. But Sir Geoffrey Howe favours deferring a decision until the functions of the Commission have been examined with those of the related bodies. You might ask what other members of the Committee think, starting with Mr. Whitelaw on the political reaction, and Mr. Prior on trade union attitudes.

9. If the Committee are in favour of immediate abolition, you will want to reach a decision on the choice between outright abolition and Mr. Nott's first two options. You might ask Sir Geoffrey Howe to take the lead.

10. If the Committee decide that they need the review before finally deciding whether to abolish the Commission, or if for any other reason they wish to defer abolition, the choice of options lies between Mr. Nott's third option and Sir Geoffrey Howe's proposal. You might ask Mr. Nott to say how long he would expect the general review to take, and also what could be achieved if we were to rely on administrative action alone during that period. It may be that administrative action would give satisfactory results on a case by case basis.

If so, the decision whether or not to go for interim legislation may depend on how long the review is going to take. If it is a matter of a few months, administrative action followed by a single piece of legislation might be more satisfactory than having two Bills in quick succession. If Mr. Nott is thinking of six months or upwards, the positive action of having a quick interim Bill on the Statute Book may seem more attractive than the alternative low-profile approach.

Decisions on current investigations and examinations

11. The annex to Mr. Nott's paper lists the Commission's current investigations and examinations. Mr. Nott recommends stopping only two of them - the investigations of RHM Bakeries Ltd. and Allied Bakeries Ltd. You might take the Committee quickly through the list of investigations and examinations to check whether they agree with Mr. Nott's recommendations.

CONCLUSIONS

12. You will wish to record that the Committee have agreed -

either

to the preparation of legislation for the immediate abolition of the Price Commission, with or without new powers for the Director General of Fair Trading, or for the Secretary of State for Trade to set up ad hoc boards;

or

to defer a decision until after the general review of the field, and meanwhile to curb the powers of the Commission either by interim legislation or by administrative action alone.

13. You will also wish to record any individual decisions about directing the Commission to stop work on current cases.

JOHN HUNT

11th May, 1979

cc Mr Wolfson
Mr Ryder

Prime Minister

PRIME MINISTER

John Nott did discuss the gist of his minute of 7 May with me but now that I have seen his minute I would like to restate my preference for immediate abolition - John's option (i) - but I would resist the idea of our reserving powers for ad hoc Boards to review individual prices or for individual price increases to be reversed retrospectively. There are many objections to the Price Commission but among the most important are that it involves interference by Government in the pricing decisions of individual firms and that it creates uncertainty among firms about the possibility of Price Commission interference. The possibility of ad hoc Boards of investigation would not remove that uncertainty but would in fact create new and unkown uncertainties, and would cancel out any boost to business confidence which John believes, as I do, to be necessary.

I appreciate the risk that outright abolition of the Commission might have political repercussions and an adverse impact on the autumn pay round. But we should be careful not to exaggerate the impact of the Price Commission on union sentiment; the abolition of the profit safeguards last winter did nothing to moderate union wage demands and most people already understand that the Price Commission has had no effective impact on price increases. If we want to offer a sop to trade union sentiment we can draw attention to the fact that we already possess powers to control many prices under the Fair Trading Act. Provided a monopoly situation which operates against the public interest can be found to exist, a Monopolies Commission investigation can empower us to order more extensive price reductions than are

/possible ...

possible following a Price Commission investigation. I suggest that, when announcing the abolition of the Price Commission, we should also refer to our ability, should it be needed, to use the Monopolies Commission machinery for price investigations. (I understand that we can instruct the Monopolies Commission to limit their investigation only to pricing practices of monopolists and to report within a relatively short time scale).

No doubt it will be necessary to consider what interim arrangements should be made for the period between the announcement of the intention to abolish the Price Commission, if that is the decision, and the enactment of the legislation, in order to curtail the Commission's activities during that time.

I am copying this minute to Cabinet colleagues and Sir John Hunt.

KJ

K J

10 May 1979

Department of Industry
Ashdown House

10 MAY 1979

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary 10 May 1979

The Prime Minister has received the enclosed letter from the Deputy Chairman of the Price Commission; the letter argues for a slimming down and a weakening of the Commission's powers, and Mr. Pincott says he would be pleased to explain his views to a Minister.

The Prime Minister would be grateful if your Secretary of State would reply on her behalf. She understands that Mr. Nott does not propose to see the Chairman of the Price Commission until Ministers have considered the basic issue of the future Price Commission next Monday and that therefore it may be difficult for him to call in the Deputy Chairman in advance. However, she would like him to consider the possibility of this - or at least of getting Mr. Pincott's more detailed views in writing.

I am sending a copy of this letter and enclosure to Martin Hall (H.M. Treasury).

TPL

T.G. Harris, Esq.,
Department of Trade.

CONFIDENTIAL

cc Mr Wolfson
Mr Biddle
Mr Ryder

CONFIDENTIAL

Prime Minister
This can be considered at E Committee along with Mr Nott's promised paper (on Monday).
TL 10/5

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

QUEEN'S SPEECH - ABOLITION OF THE PRICE COMMISSION

Flag A

I have seen a copy of John Nott's minute of 7th May about the future of the Price Commission.

2. The wording we have agreed for the Queen's Speech leaves open the exact form of legislation we will be proposing and it is not therefore necessary to take final decisions this week.

3. My present view is that there is no need for the Price Commission to survive as a separate organisation. It could be absorbed into the Monopolies and Mergers Commission with the resulting body being given added powers to investigate matters referred to them quickly. We can decide exactly what would be appropriate when we have reviewed the operations of the Price Commission, the Monopolies and Mergers Commission, and the Office of Fair Trading.

4. At the moment the immediate need is to relieve industry and the nationalised industries of the burden of Price Commission investigations and prenotification of proposed price increases, and to remove from the Price Commission its powers of independent initiative. I do not think that Sally Oppenheim's proposals go nearly far enough in this direction. On the other hand I would not favour John Nott's suggestion for establishing ad hoc boards. If, as I think will prove to be the case, we need to have a small outside body who can

/undertake

CONFIDENTIAL

undertake independent investigations at the request of the Government, then this is best done by a standing body rather than trying to assemble individuals for a particular enquiry when cases arise.

5. I suggest that, before decisions are taken, the Ministers concerned should discuss John Nott's proposals when the further option which I have put forward could be considered. I am copying this minute to other members of the Cabinet and to Sir John Hunt.

(G.H.)

9 May, 1979

MR LANKESTER

FUTURE OF THE PRICE COMMISSION

A couple of quick points on your letter to Department of Trade of 9 May under this title.

(i) Most important to finding economies in public expenditure is the impact - if any - of the current freeze on nationalised industry prices on the scope for reducing the cash requirements of the nationalised industries. It could be that these freezes are immaterial, since the normal time of NI price adjustments would preclude one from raising prices any earlier than would otherwise have been the case, even if the freezes were removed. But this supposition needs to be tested.

(ii) Should the Department of Trade not be asked to include in their paper an indication, however brief, of how they wish to proceed in strengthening competition policy?

Michael Portillo

pp ADAM RIDLEY
9 May 1979

Mr Ridley

Thank you. Both of these points will be covered in the DoT paper. (There is indeed a freeze on electricity and, I think, gas prices pending investigations: but the PM has said she doesn't want gas prices raised). TL 9/5

PRIME MINISTER

This letter from the Deputy Chairman of the Price Commission expresses concern at reports that the Price Commission may be abolished. He argues for a slimming down and a weakening of the Commission's powers. He also suggests that he might call on a Minister to explain his views.

I think Mr. Pincott's views are roughly in accord with yours, and it would be interesting for the Government to have his detailed views. However, Mr. Nott is not proposing to see the Chairman of the Commission until after Ministers have decided on the main issue of whether to abolish the Commission or to continue with it in a weaker form (we are trying to fix up a meeting of the Economic Strategy Committee for Monday). It may therefore be difficult for him to call ~~for~~ in the Deputy Chairman before Monday. I suggest that we ask Mr. Nott to reply, leaving it to him whether or not he calls in Mr. Pincott - alternatively he may be able to get his views in more detail in writing. Agree? Yes and

TL

9 May 1979

HS

9 May 1979

I am writing on the Prime Minister's behalf to acknowledge your letter of 7 May. A further reply will be sent to you as soon as possible.

T.P. LANKESTER

L.R. Pincott, Esq.

CONFIDENTIAL

cc Cabinet
CO
Mr. Ridley
Mr. Ryder
Mr. Wolfson

Economic Policy

10 DOWNING STREET

From the Private Secretary

9 May 1979

Dear Tom,

<u>Future of the Price Commission</u>

The Prime Minister has considered your Secretary of State's minute of 7 May and your letter of 8 May on the above subject.

The Prime Minister's view is that the issue raised by your Secretary of State is too important for a decision on it to be rushed this week. But she would be happy if Mr. Nott circulated a paper outlining the options which could be considered by Ministers early next week. She would herself like to chair the meeting which will discuss the paper, and the Cabinet Office will be trying to set up a meeting of the Ministerial Committee on Economic Strategy for Monday.

The Prime Minister's initial predisposition is to prefer the course favoured by Mrs. Oppenheim - i.e. to introduce a short Bill to abolish the Commission's powers to freeze prices during an inquiry and to replace this with a power to roll back prices following an inquiry, subject to minimum safeguards. But she will of course wish to have the views of colleagues.

The Prime Minister would be grateful if Mr. Nott's paper would include an assessment of the investigations which are currently underway with a view to seeing whether any of them should be stopped. In this connection, the paper should make it clear what powers the Government has under existing legislation to stop these investigations.

I am sending a copy of this letter to Private Secretaries to the Cabinet and to Martin Vile (Cabinet Office).

Yours ever,

Tim Lankester.

T.G. Harris, Esq.,
Department of Trade.

CONFIDENTIAL

c.c. Mr. Wolfson
Mr. Ridley
Mr. Ryder

PRIME MINISTER

Future of the Price Commission

Mr. Nott's note (Flag A) considers two options - whether to abolish the Price Commission altogether while reserving certain powers to the Secretary of State to enable him to reverse prices in exceptional circumstances; or to continue with the Commission, but to substantially weaken its powers. Mr. Nott favours the first; Mrs Oppenheim the second.

At Flag B is a further note from the Department of Trade which proposes that the issue should be considered at an early meeting of the relevant Ministers, and argues that this meeting should be given the authority to take a decision. The intention would then be to announce the decision in the course of the Debate on the Address.

David Wolfson has pointed out that immediate abolition of the Commission would be inconsistent with the Manifesto which said "We will review the working of the ... Price Commission". He is concerned that, if we go for immediate abolition, some people may question whether we are going to stick to other elements in the Manifesto. Adam Ridley, in his note at Flag C, argues that there could well be a good political case for adopting the course favoured by Mrs Oppenheim.

I understand that you told Ken Stowe that you did not wish a decision on this to be rushed. It is clearly an important one, and we think you should be in the chair at any meeting to discuss it. However, if Mr. Nott can prepare a paper in time, covering the points which you mentioned (including looking at current investigations, seeing whether any should be stopped and whether we have powers to stop them) we might be able to fix a meeting of the Committee on Economic Strategy for later this week. If not, early next week. Do you agree that we should proceed on this basis?

(1) If we are to stick to our rule that Ministers must have read their papers 48 hours before the meeting, - there is not time to hold it this week.

8 May 1979

(2) Other interested departments or Ministers must have

have to comment in writing.

(3) It follows that the earliest we could hold a meeting would be Monday. I am happy for this to be arranged.

(4) I must tell you at the outset that I favour metamorphosis rather than restriction. The two main purposes of our strategy are

(i) to restore incentives by direct tax cuts and consequently to tolerate indirect tax increases and

(ii) to establish credibility and authority by the necessary amendments to T.U. law.

It would be unwise to jeopardise these objectives.

(5) Finally decisions reached in haste are decisions repented later.

MR LANKESTER

ABOLITION OF THE PRICE COMMISSION

You asked for my comments on the Secretary of State for Trade's minute to the Prime Minister of 7 May. From an economic point of view, there is no argument for keeping the Price Commission going unnecessarily long, as the Secretary of State says. However, there are two other issues of a political kind which may argue in favour of the slower option which Sally Oppenheim recommends.

First, it is conceivable that, if there is to be a significant increase in prices attributable to rising VAT and other charges, it would be useful to have the Price Commission operating on some kind of basis in order to help defuse anxieties. Second, it can be argued that, if there is any case for any other tidying up legislation in the field of competition policy, it would be sensible to deal with this in the same bill rather than to return to the fray at a later stage.

The biggest issue of all is, however, the extent to which an early initiative on this front could aggravate relations with the union movement. My own instinct, for what it is worth, is that it would not in itself make a great difference, though it might do so in the context of other policies such as action on picketing or the closed shop. But is this not a question on which the Secretary of State for Employment ought to be consulted?

AR

ADAM RIDLEY
8 May 1979

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

B

From the Secretary of State

Tim Lankester Esq
10 Downing Street
LONDON SW1

8 May 1979

Dear Tim,

FUTURE OF THE PRICE COMMISSION

In his minute to the Prime Minister of 7 May, the Secretary of State raised the need for an urgent decision on the future of the Price Commission. He has now discussed the options mentioned in his minute further with his Ministerial colleagues and with officials. He is confirmed in his conviction that an early decision is required. There will be widespread calls for the Government to have a view available not later than the debate on the Queen's Speech. Moreover, the CBI intend to publish a report on the Price Commission on 17 May which will advocate its abolition, thus provoking a public argument with the TUC. He believes it would be politically desirable for an announcement of the Government's policy to precede and not follow such a report.

On the other hand, my Secretary of State recognises that the issues involved are complicated and may require more detailed discussion among the Ministers mainly concerned than would be possible in Cabinet. He would therefore be grateful if an urgent meeting of the relevant Ministers could be arranged this week at which he would put forward a paper outlining in more detail the options which are open to the Government; and if this committee could be given the authority to take a decision.

As the text of the Queen's Speech will have to be finalised on Thursday, he suggests that the reference in the Speech should be limited to

> "My Government will publish proposals for more effective competition and fair pricing policies".

The Government's decision on the future of the Price Commission could then be announced in the course of the debate on the Address, preferably in the course of the Prime Minister's own speech.

From the Secretary of State

I am copying this letter to the private secretaries of recipients of the Secretary of State's minute of 7 May.

Yours sincerely,

Tom Harris

T G HARRIS
Private Secretary

18 MAY 1979

Extract from Informal Cabinet Meeting 8 May 1978, 2.30pm

g. Price Commission - The Secretary of State for Trade referred to a minute he had sent you seeking agreement to immediate abolition of the Price Commission. You directed that the Government should not take precipitate decisions of this nature but advised that he should immediately see whether it would be appropriate, using such powers as he had, to put a stop to any current investigations where this seemed desirable.

Top Copy
Police - Pay - May 79

132 Woodsford Square,
London, W14 8DT
01-602 4477

7th May, 1979.

The Rt. Hon. Margaret Thatcher,
Prime Minister,
10 Downing Street,
S.W.1.

Dear Prime Minister,

Price Commission

As a Deputy Chairman of the present Price Commission, with long experience in industry and as an ardent supporter of your policies, I am writing to express my personal concern about some reports that the Prices Act 1977 will be revoked and the Price Commission disbanded.

I believe that a large number of informed people still feel that Government should maintain some surveillance over price increases. With inflation now running well above 10%, it seems certain that the Trade Unions will demand some continuing control over prices if agreement is to be reached on pay demands and if legislation is to be changed.

Industrial leaders have been angered by the interference and the cost of investigations. My personal opinion is that the Commission's attitude has been largely responsible for this. My proposal would be to cut the Commission's activities and staff by more than half, to amend the Notification Order, and to redirect its activities along simpler and more acceptable lines.

I would be pleased to meet a member of your Cabinet to explain my views further, if you feel this would be of assistance.

With every good wish for the success of your Government,

Yours sincerely,

Leslie Pincott

Leslie R. Pincott

CONFIDENTIAL B

PRIME MINISTER

QUEEN'S SPEECH: ABOLITION OF THE PRICE COMMISSION

Keith Joseph and I have had a quick word about the future of the Price Commission. As you know, we all discussed this subject pretty fully before the election and agreed on a very early Bill which would be sufficiently short and simple to enable us to push it through the House without too much delay. During the election we only talked of a "review" of all institutions in the field and Sally Oppenheim stuck to this line throughout the campaign. Nevertheless, in my view, there is everything to be said for accomplishing the removal or emasculation of the Commission before the summer recess since if we wait until the autumn it may be the end of the year before it receives Royal Assent. Industry is in dire need of a boost in its confidence and I feel that we should act fast. (I am advised that we could produce the necessary short Bill in time).

I think we have two options:

(1) To introduce a short Bill to abolish the Price Commission, but reserve, as a purely temporary measure, certain powers of the Secretary of State to refer sectors and specific companies for review to ad hoc Boards appointed for this purpose. I suggest we may need some sanction to reverse prices retrospectively but I would envisage that this power would only be used in the most exceptional cases of a strictly emergency nature. The Secretary of State's powers would be available until such time as we would be able to place prices firmly in the field of competition policy following the review of this field promised in the manifesto.

(2) To introduce a short Bill to abolish the Commission's power to freeze prices during an enquiry and to replace this with a power to roll back prices following an enquiry, subject to minimum safeguards. The present Chairman of the Commission would be replaced.

Despite the risks involved, my own preference would be for the first of these options, although Sally Oppenheim prefers the second option as she feels there would be less political risks involved. A quick abolition Bill may seem extremely hasty and drastic to the trade unions but I think it will have less adverse impact on the mood of the autumn pay round if we act now and clear the decks completely. In my view there does not seem a lot purpose in keeping the full organisation in being when we have effectively drawn its teeth. I want to keep the temporary reserve Ministerial powers purely as a gesture to trade union sentiment. A decision on this issue will clearly need to be reflected in the Queen's Speech, and you may wish to include this in our discussions at Cabinet.

CONFIDENTIAL

I am copying this minute to Cabinet colleagues and to Sir John Hunt.

Department of Trade
1 Victoria Street

7 May 1979

JN.

JN

END

Filmed at the National Archives (TNA) in London

February 2010