

Profits as percentages of capital employed

<i>Basis of calculation and periods</i>	Fibres and textiles					Other trading activities	Group
	SECTION A Cellulosic fibres %	Other products %	SECTION B Cellulosic fibres %	Other products %	Total %		
Historic Cost							
Average for 4 years to 31 March 1963...	11.9	3.8	11.9	3.8	10.2	9.0	9.9
Year ended 31 March							
1964	16.3	8.8	15.9	9.3	14.1	18.5	15.6
1965	20.2	6.8	17.7	6.9	14.2	16.6	14.9
1966	17.7	7.6	14.6	8.5	12.5	15.5	13.4
1967	14.6	6.7	11.8	8.1	10.3	13.5	11.2
Average for 4 years to 31 March 1967...	17.2	7.2	14.8	8.1	12.5	15.8	13.5
Average for 8 years to 31 March 1967...	14.6	6.5	13.6	6.9	11.6	12.9	12.1
Replacement Cost							
Average for 4 years to 31 March 1963...	6.2	2.1	6.2	2.1	5.4	N/A	N/A
Year ended 31 March							
1964	9.9	6.2	9.7	6.5	8.9	N/A	N/A
1965	13.1	4.8	11.7	4.7	9.5	N/A	N/A
1966	10.6	5.3	8.9	6.0	8.0	N/A	N/A
1967	8.3	4.6	6.7	5.9	6.3	N/A	N/A
Average for 4 years to 31 March 1967...	10.4	5.0	9.1	5.7	8.0	N/A	N/A
Average for 8 years to 31 March 1967...	8.4	4.4	7.8	4.7	7.0	N/A	N/A

CHAPTER 6

Effects of Courtaulds Limited's Production, Pricing and Related Policies on the Company's Customers

100. The views of a number of Courtaulds' principal customers (in most cases submitted in reply to a questionnaire sent by us in November 1965) are summarised in Appendix 14. Many of the comments made can be explained by reference to the company's arrangements as described in earlier sections of this report; others, particularly those relating to the availability, quality, and price of cellulosic fibres and to such related matters as the service given by Courtaulds and the company's handling of complaints, reflect the effects of Courtaulds' policies on its customers and are considered below, with the company's comments and explanations.

Availability of fibres

101. Many users have described supplies from Courtaulds as being generally satisfactory; a few have referred to them as being readily available. Others have said that supply is not always sufficient to meet demand and that shortages

(of varying duration and seriousness) have occurred; particular mention is made of tyre cord (where a sudden increase in demand may lead to shortages), viscose staple and Evlan carpet staple (during 1964, 1965 and early 1966), acetate yarn (from mid-1963 to early 1965), triacetate yarn (in 1961/62) and acetate tow for cigarette filter tips. Users have pointed out that when shortages occur their own production systems can be (and have been) close to disruption or a part of their capacity brought to a standstill. Users have also pointed out that for most types of cellulosic fibres there is no alternative source of supply in the United Kingdom and that the level of duty makes imports costly; two have alleged that Courtaulds had said it would oppose a particular application for duty-free imports. The further observation has been made that, more particularly in times of heavy demand, Courtaulds rations certain fibres or confines them to particular end-uses; some customers have commented favourably on this system.

102. Courtaulds has itself admitted that there have been times when demand has outrun supply, but has said that complaints would have been few had not the Commission's questionnaire to users coincided with the later stages of the greatest textiles boom in the United Kingdom since 1945. Between 1962 and 1965 the company could have sold more of such established fibres as standard viscose staple (Fibro) and diacetate yarn (Dicel), but in these cases additional sales would have met 'unreal' demand (see footnote† to paragraph 78), would have built up processors' stocks and would ultimately have aggravated the trade cycle at the cost of creating surplus manufacturing capacity. Demand more truly outran supply in the case of new fibres such as triacetate yarn (Tricel) and carpet staple (Evlan) where future trends were difficult to predict, but here again in the company's view it would ultimately have been wasteful to meet these peak demands. The company fixes its prices for new fibres at a level calculated to produce sufficient demand to enable its plant to run at or near capacity. Knowledge in the trade that demand is good stimulates further demand but, although 'on a few occasions' Courtaulds has been unable to meet the full demand at the prices set, the company considers this preferable to restraining demand within production capacity by charging higher prices. Moreover, initial expectations are not always realised and early successes are not always sustained.

103. Courtaulds has no case on record of any customer in the United Kingdom having to operate substantially below capacity for any appreciable time because of shortage of any viscose product, although there have been occasions when the company has not been able to meet a sudden and unexpected demand for a special variety. It has found only four cases in the past 15 years in which a customer has had machinery idle, in each case for less than a week. Complaints to the Commission regarding standard Fibro probably, in Courtaulds' view, result from 'a temporary imbalance' between supply and 'unreal' demand and misjudgment by the customer of his forward requirements, coupled with his 'usual hope that Courtaulds would, in effect, finance his stocks'.

104. Shortages of Evlan have resulted, Courtaulds has said, from the very success of this unique fibre and in spite of considerable expansion in production capacity: production began in May 1962 and averaged 328,000 lbs per month in the first three months; in the last quarter of 1966 it averaged 6,800,000 lbs

per month. The company has been able 'to meet almost all demands . . . by not accepting orders in excess of real requirements'; the rare difficulties would have been more easily overcome had customers been prepared to accept Svenska crimped staple at 3d.-4d. per lb less as an alternative.

105. Courtaulds' production of tyre yarn increased by 82 per cent (from 45m to 80m lbs) between 1958/59 and 1965/66 and its production of acetate tow from a rate of 5.5m lbs in 1960/61 to a rate of 21.5m lbs in the year ended May 1967, and to a rate of 22.1m lbs in the year ended August 1967. The company believes that it has supplied all the tyre yarn and all (or almost all) the acetate tow needed to meet 'home market requirements'; where fibre has been imported for re-export in manufactured form, the company has not opposed applications for duty relief. It has explained that tyre yarn and acetate tow for cigarette filter tips present (in different degrees) similar problems. In each case Courtaulds' customers are companies with international interests and can decide whether they will manufacture in this country and export, or manufacture overseas. This affects the volume of their purchases in the United Kingdom. A large part of Courtaulds' sales of tyre yarn goes to the original equipment tyre market; sales fluctuate with production in the motor industry and to a greater extent than the output of tyre manufacturers themselves, much of whose production goes into the replacement market*. Courtaulds meets tyre manufacturers quarterly to forecast their requirements. Courtaulds has said that, in the case of cigarette tow, the problems have been increased by the difficulty of forecasting demand and the inability of Courtaulds' customers to give estimates of their requirements. The expansion of production capacity for cigarette tow is, Courtaulds has submitted, a major industrial undertaking requiring investment on a large scale; the expansion of production for cigarette filter rods 'is a comparatively simple operation requiring only small investment'. The expansion of production for tow is attended by special risks; the machinery cannot be used for other purposes and the company's principal customer, Cigarette Components Ltd, which holds a monopoly largely based on patent protection, has now announced its intention of joining with the American patent holder to manufacture its own tow in the United Kingdom from imported acetate flake (see paragraph 31). Furthermore, in Courtaulds' view, demand could be affected by a possible discriminatory excise duty imposed on cigarettes on health grounds, by the development of more effective types of filter or possibly by United Kingdom entry into EEC and a consequent change in the method of taxing cigarettes.

106. We describe the manufacture and supply of acetate tow and the relations between Courtaulds and its customers in some detail in Appendix 15. Courtaulds' output in the years 1963 to 1966 would appear consistently to have been below the total demand of its customers in the United Kingdom (for the production of filter rods and cigarettes both for home and export). In the current year (1967) production has again increased and demand has fallen for the first time; the gap has narrowed.

107. With regard to imports of competitive cellulosic fibres, Courtaulds has said that it has not been the company's policy automatically to oppose

* Courtaulds has explained that a higher proportion of nylon and steel cord goes into tyres for the replacement market.

applications for duty remission irrespective of whether it could itself meet demand, although it has on occasion when invited to do so placed relevant facts before the Board of Trade, including information on the availability or otherwise of a particular quality of fibre from Courtaulds. Three major applications for a general duty remission on cellulosic fibres have been made since the war. The first, in 1950/51, was made by spinners and concerned viscose staple at a time when the Korean war had caused a world-wide shortage of natural fibres. Courtaulds supported remission for the second half of 1951*. It later became clear to the company that most of the staple imported went into spinners' stocks and thus caused a build-up in Courtaulds' own stocks, resulting in a 61 per cent cutback in the company's production between March and June 1952. The other applications, in 1964 and 1965, concerned total remission of duty on cigarette tow. Courtaulds strongly and successfully opposed both because the company itself was 'substantially able to meet domestic requirements for use in the home market' (see Appendix 15). The only other case of any significance since 1950 known to Courtaulds also occurred during the Korean war and concerned an application by the Tyre Manufacturers' Conference for a suspension of duty on tyre yarn. Courtaulds told the Board of Trade that it would not oppose suspension for a period of rather less than a year, but the application was successfully opposed by independent producers of tyre fabric.

108. Application for remission of duty on fibres subsequently intended for re-export has been more frequent. Courtaulds 'accepts that it is in the national interest that export trade should be encouraged in every possible way and considers that export earnings are best maximised by the use, wherever possible, of domestically produced rather than imported goods in exported manufactures. The company's general policy has been to present the facts to the Board of Trade and to correct any misapprehensions . . .'. If the reason given by the applicant relates to price, Courtaulds normally tries to meet him by adjusting its export rebate scheme (see paragraph 82)†. When the company is told beforehand of an intended application, 'it usually adopts a non-committal attitude . . . But it is quite possible that on some occasions the company has indicated that it would oppose applications on the basis of the facts known to it'.

Quality

109. The quality of Courtaulds' fibres is described variously as satisfactory, good or high, or even as the best in the world by some customers, but as variable or inferior to that of continental and other world producers by others. There is no general line of demarcation as between particular types of fibres or particular uses although commendation has been related specifically to Evlan and criticism to acetate cigarette tow (where it was, however, agreed that quality had improved), industrial yarn (as inferior to the best continental product), viscose textile yarn and acetate yarn.

110. To these views Courtaulds has replied that quality in all fibres is necessarily relative. In the case of cellulosic fibres, variations in the (natural) raw

* Courtaulds withdrew its support at the end of 1951.

† For example, Courtaulds' minutes record that in 1962 the board of British Celanese recognised that where acetate cigarette tow was required for subsequent export the company's 'prices would have to be competitive with the world level . . .' and that a price concession of 2d. per lb. might be necessary.

material and the limitations inherent in chemical processes forbid absolute control. Furthermore there is a limit to the price the customer will pay and hence to the cost of production and 'the producer is thus obliged to set his standards arbitrarily . . .'. In the case of all-purpose 'commodity' fibres the producer must, in view of the many end-uses, compromise in regard to the physical properties available in such fibres. Courtaulds has always set high standards, but 'no system of quality control could be devised . . . which would ensure that no defective fibre was ever delivered to any customer as first quality'. This does occasionally happen, but the number of complaints received has never exceeded one per cent of turnover and is very low in relation to total deliveries. For a number of reasons (connected with increasing automation in the textile industry, higher processing speeds, growth in range of end-uses, increasing specialisation of product, rebuilding of plant) the level of complaints might, in Courtaulds' view, have been expected to rise; in fact the level of justified complaints has if anything declined. If quality had deteriorated Courtaulds' textile subsidiaries, as some of the largest users, would have suffered; in fact with the possible exception of viscose textile yarn (now an obsolescent product), quality of all products has improved.

111. The company has drawn attention to the fact that, both before the war and from 1955 onwards, it has operated tested quality schemes by which users of its fibres can submit samples of fabric, garments or carpets for independent testing and, if successful in meeting standards laid down by Courtaulds, can use the company's quality labels linking their product to Courtaulds' branded fibres. The company says that a great number of the complaints it receives concerning the quality of its fibres are from manufacturers whose products have failed to meet quality standards laid down by Courtaulds.

Service and the treatment of complaints

112. On these matters also customers have expressed divergent views. Many have commented favourably on service received from Courtaulds, their descriptions ranging from 'reasonable' to 'exceedingly good', a few have noted close and helpful co-operation on research and development or have remarked on their close relations with their supplier (relations described in one case as extending over nearly forty years). A few have remarked on the efficient and prompt treatment of complaints or have said that Courtaulds did all in its power to overcome difficulties quickly. Others have expressed dissatisfaction, referring to lowered standards of service (attributed variously to absence of competition or to the interests of economy), poor liaison, delays in obtaining settlement of claims or awareness of the fibre producer's 'near monopoly position' when negotiating such settlements.

113. Courtaulds itself has said that its policy on service to its customers is the same for cellulosic fibres as for synthetic fibres, of which it is not the only United Kingdom producer. The company has not effected economies by lowering the standard of service given to its customers; the number of staff employed in the Commercial Division in servicing home trade customers for all man-made fibres has increased by 37 per cent since 1961. There has, however, been a shift in emphasis; more service is now given in relation to the newer fibres and less (especially in the case of smaller users) on established fibres. Furthermore, the

company says that in the past, in a highly fragmented textile industry, it had to be in a position to give service to a large number of small firms in order to promote the use of its man-made fibres. 'With the concentration in the textile industries, and especially the cotton industries, and the firmer establishment of man-made fibres in those industries, Courtaulds had to review its policy.' Small customers tend to seek proportionately more services than large customers and such services have ultimately to be paid for. Courtaulds believes that the development of large and rationalised groupings will promote the future prosperity of the industry and is therefore anxious to avoid any policy of subsidising small customers at the expense of large. Small users are, in Courtaulds' view, really objecting to the fact that a subsidy has been withdrawn. Nevertheless the company is still mindful of the small user's interests and provides substantial finance to research associations catering for the industry.

114. Courtaulds has said that complaints are an 'inherent feature' of the textile trade. The company aims to deal with each complaint received as sympathetically and speedily as possible and with courtesy and fairness, otherwise it would jeopardize its goodwill and lessen its chances of increased sales and the success of new promotions in competition with other fibres. The company has submitted that it has 'no real monopoly' and could not afford to 'adopt an independent attitude'. Complaints relating to all the company's fibres are dealt with by a Customers' Service Department, which initiates action within 24 hours. Investigation is 'a highly complex matter' as the fibre concerned may have passed through a number of intermediate processes; as the company cannot afford to encourage processors automatically to pass all claims back along the chain to the fibre producer, even claims relating to quite small sums of money require careful investigation. The company has given particulars of a case where after nearly two months' investigation it rejected a claim which had at first appeared to it to be justified.

115. Courtaulds has explained that there is inevitably a temptation to pay claims, especially small ones, without proper investigation; acceptance of claims promotes goodwill, while investigation is troublesome and expensive. Until four or five years ago the company followed that course. It then reviewed its policy and decided that, while all claims should be dealt with fairly, the payment of unjustified claims must be minimised, if only to discourage the presentation of such claims in the future. It did not thereby seek to evade its responsibilities at 'common law or under the Sale of Goods Act'. The company has further explained that, as the value of cloth increases at each processing stage, the amount of the claim may be disproportionate to the value of the cellulosic fibre content and some processors, particularly in Courtaulds' experience smaller processors when under pressure from the big clothing retailers, are very ready to accept and pass back claims which may not be justified. Even where a claim is justified, the quantification of reasonable compensation may be complex; intermediate processors may pay unreasonable sums believing that they will be reimbursed by the fibre manufacturer. Courtaulds considers that its current policy provides a desirable countervailing pressure.

Prices:

(a) The level of Courtaulds' prices

116. A number of the company's customers have commented favourably on

the price stability achieved by Courtaulds, despite rising labour and materials costs, and the stabilising and beneficial effect of this on the textile industry as a whole. Several customers have expressed themselves as satisfied with the level of the company's prices, which they considered to be competitive with that of overseas manufacturers. Individual customers have said that over the years Courtaulds' prices have risen less than costs generally, that they would have been higher had it not been the company's policy to keep them as low as possible, or that they would rise if there were more cellulosic fibre producers. Appreciation has also been expressed of Courtaulds' export derogation arrangements.

117. Other customers have, however, suggested that in the absence of competition Courtaulds' prices are higher than the effective domestic prices in other countries. Help given by Courtaulds on orders intended for export is said not to meet the case. Reductions in import duties under EFTA have not brought the expected competition because of agreements between Courtaulds and EFTA producers, and it is noted that the prices of the Swedish producer have since risen. The prices obtained by Courtaulds in the home market are said to enable it to export fibres at a low price; exports by the company's customers of yarn and finished goods to the markets concerned are thereby hindered, foreign competitors are enabled to compete with United Kingdom exporters in third markets on more favourable terms and the ability of manufacturers in the United Kingdom to compete against duty-free imports of cotton goods from Commonwealth countries is weakened.

118. In reply, Courtaulds has submitted that, with the exception of Japan (where there is considerable excess production capacity and producers are operating at a loss), United Kingdom users of fibres are at no disadvantage in relation to their foreign competitors in fibre producing countries, since the latter buy from domestic producers 'at prices close to and often above' Courtaulds' home market prices. To support this claim the company has produced a list of prices ruling in June 1966 for principal standard types of fibre in the home markets of European and American producers (see Appendix 13)*. The prices produced by the company are list prices and take no account of quantity or other discounts given by some (if not most) continental producers. Courtaulds has submitted that the lower continental viscose prices 'are not real prices'. It has explained that continental producers have been concerned primarily with nylon and with other newer types of man-made fibres; their interest in viscose, where profits were falling or even disappearing, has for many years progressively decreased although production was continued as insurance against a possible change in fashion. Moreover, viscose plants, being expensive and having a long life, can, once they are written off, produce fibres saleable at prices which, though low, still make a contribution to total factory overheads. With the recent fall in the prices of nylon and other synthetic fibres, continental producers

* The prices given show that Courtaulds' prices for viscose tyre yarn and diacetate yarn are generally lower than the home market prices of other producers. The company's prices for viscose textile yarn are in all cases higher than the home market prices of Belgian, Dutch and French producers and sometimes higher than those of German and Italian producers. The company's prices for viscose staple fibre are in all cases higher than those of Belgian, Dutch, French and Italian producers and in some cases higher than those of Finnish and Swedish producers.

have been closing factories manufacturing viscose*. Viscose factories are also being closed because the continental prices 'are quite impossible' without substantial profits from the newer fibres. Courtaulds says that its own position is quite different. In 1940 the company was in effect excluded from the nylon market; although it acquired a 50 per cent share in British Nylon Spinners, the income from this source was relatively small since most of the profits were ploughed back. If it wished to survive Courtaulds had therefore no alternative but to make its viscose activities profitable, though it believes that it would in any event have pressed on with its viscose development.

119. The company concedes that in Japan and in non-fibre producing countries fibre users do enjoy a raw material cost advantage, although this is small in relation to total fabric costs. In order that United Kingdom textile manufacturers shall not be at a disadvantage in exporting, Courtaulds operates a scheme whereby export rebates (ranging from 2½d. to 12d. per lb, according to type of fibre) are allowed (see paragraph 82). There is thus in the company's view no substance in the suggestion that lower prices for viscose fibre sold abroad could result in sales of spun yarn fabric in markets to which United Kingdom textile manufacturers sell at prices with which the latter would find it difficult to compete.

120. Courtaulds has submitted that a quite substantial difference in price of fibre has only a very small effect on difference of price between fabrics. Furthermore, the great bulk of the company's low-priced exports are to Eastern European countries and China for internal use and, except now in the case of yarn and fabric from EFTA countries, United Kingdom textile manufacturers are in any case protected from low-priced imports by tariff†. In EFTA countries where fibre production is small or non-existent, however, viscose staple and yarn prices are determined 'by the extent to which non-EFTA producers are prepared to dump'. Under the EFTA Convention, printed fabric and garments made from fibres from any source, and yarns and fabrics made from fibres produced within EFTA, can then be shipped duty-free and quota-free from the EFTA countries concerned into the United Kingdom. Courtaulds has said that this is now happening in the case of Portugal where, although after payment of freight and duty domestic prices for staple fibre are not below United Kingdom prices, spinners and weavers can claim duty drawback on fibres produced within EFTA for export business, making the effective price below the United Kingdom domestic price, and where textile operatives are (according to Courtaulds) among the lowest paid workers in a country where labour generally is cheap. While Courtaulds' arrangements with certain EFTA producers may help by raising prices for staple fibre exported to Portugal, other EFTA producers (including the subsidiaries of Courtaulds' competitors in the EEC) may well be exporting staple to Portugal at very low prices. In these circumstances, Court-

* More specifically Courtaulds has mentioned that the 'Japanese . . . have been considering . . . shutting down some of their viscose and getting orderly marketing and higher prices for what remains'; VGF and Rhône-Poulenc have both closed down certain staple fibre plants in 1966/67, AKU has provisionally decided to stop the production of staple.

Celanese Corporation of America ceased production of viscose textile yarn in March 1967.

† The tariff is lower in respect of imports from Commonwealth countries, where British preferential treatment applies, than from other countries. The rate of preferential duty is reduced in accordance with the proportion of natural fibres contained in any yarns or fabrics. Yarns and fabrics made from 100 per cent natural fibres and imported from Commonwealth countries are not subject to any duty.

aulds considers that it is obviously better that the company should take the business and benefit both itself and the balance of payments, rather than lose the business and benefit no one. United Kingdom textile manufacturers are also, Courtaulds says, suffering from duty-free imports of spun rayon yarn and fabrics from Austria. The company thinks that the reason for the low prices at which those products have recently been sold in the United Kingdom lies in the way in which the Austrians operate their turnover tax system and tax-free zone arrangements.

121. In Courtaulds' view the difficulties of United Kingdom textile manufacturers stem rather from acute competition from low-priced duty-free cotton yarns and fabrics from Commonwealth countries, over the price of which the company can have no control and concerning which it has supported representations made to the Board of Trade. The basic need, Courtaulds has submitted, is to reduce labour costs in the Lancashire industry by the intensive use of modern plant; the company has drawn attention to its own efforts to raise productivity, which in spinning alone will by 1968 have involved new investment to the amount of £13m.

(b) Price discrimination

122. Courtaulds has been criticised in two respects on the ground that its price arrangements have operated in such a way as to place particular classes of customer, or the users of particular types of fibres, at a disadvantage. In the first case, associations representing the Irish and Scottish linen industries alleged that the company had given preference to the cotton industry, in which it has substantial interests. Their criticism is to the effect that on 22 October 1965 Courtaulds, for the first time in 20 years, introduced a differential (apparently unrelated to comparative production costs) between coarse denier long staple viscose fibre and fine denier short staple fibre by reducing the price of the latter. It is pointed out that long staple spinners are unable by the nature of their machinery to use short staple fibre and that a reduction in profits is likely to discourage future, or cancel out past, capital expenditure on plant made 'on the faith of a continued supply of fibre at a competitive price'. Courtaulds had promised the linen industry that the differential would end when the company's Carrickfergus plant began production of coarse denier staple and the promise was in fact implemented in March 1967.

123. In reply Courtaulds has said that in the latter part of 1965 cotton prices were falling. The change in prices for viscose staple made by the company in October 1965 in fact removed a differential; the flax spinners previously enjoyed an advantage in that 'it is cheaper to convert on the linen system than on the cotton system*'. In Courtaulds' view the difficulties of the flax spinners were in any case due not to the change in viscose staple prices introduced in 1965 but to the spinners' unwillingness to adapt their methods to meet changes in

* Courtaulds has explained that there are two grades of linen product: first quality, made entirely from flax staple; second quality, made from flax tow (which is in effect waste) and which produces a coarse cheap yarn of slub appearance. Man-made cellulosic fibres are used only in the second category, whether in blends with flax or on their own. The spinning of yarn from tow on the flax system is cheaper than the spinning of yarn from staple on the cotton system in that, as a coarser and less uniform thread is desired, the number of intermediate processes is reduced (e.g. there is no combing). The savings calculated by Courtaulds at 2d. per lb. However, where man-made fibre tow is spun with flax tow an additional cutting process is involved, calculated to cost ½d. per lb. The net difference is therefore, according to Courtaulds, 1½d. per lb.

fashion. The price differential then introduced by Courtaulds was related solely to competition from cotton; it did not, and was not intended to, place the company's own cotton-spinning subsidiaries at an advantage in relation to flax spinners. The further price change made in March 1967 anticipated economies in production costs resulting from the 'imminent coming on stream' of Courtaulds' Carrickfergus plant, which had been designed specifically to make a fibre suitable for the Irish linen industry*.

124. The second case concerns price increases made by Courtaulds on 1 August 1967, following the closing of the Suez Canal in June and the consequent introduction by the oil companies of a surcharge of 2d. per gallon on the price of oil (*House of Commons Official Report*, 29 June 1967, refers). One of Courtaulds' customers has alleged that, while the company increased its prices for viscose and acetate yarns and for certain types of viscose staple fibre (where there is no competing manufacturer in the United Kingdom), it did not increase its prices for nylon and acrylic fibres (where there are other manufacturers) or for viscose tow (which is in competition with cotton).

125. In reply, Courtaulds has said that the production costs of cellulosic fibres have been affected 'far more' by the oil surcharge than those of synthetic fibres. In the case of synthetics oil is used as fuel to provide power and heat in the spinning process, but the cost of intermediate raw materials is so far unaffected. In viscose and acetate the surcharge affects not only spinning costs, but also production costs of intermediate raw materials such as acetate flake, as well as the costs of certain chemical raw materials manufactured by the company from oil or oil products which are themselves subject to the surcharge. Having regard to the 'low level of profit' earned by the company on cellulosic fibres, 'it had no alternative but to pass on the increased costs, thus incurred, to its customers by means of a temporary surcharge' of 1d. per lb (on Evlan carpet staple and on spun-dyed viscose staple and tow) or 2d. per lb (on viscose and acetate textile yarns). The increases will, Courtaulds has said, be withdrawn as soon as the company itself ceases to be affected by the oil surcharge.

126. The company has also said that 'the considerations affecting such temporary price increases must be clearly distinguished from those affecting permanent increases . . . while any increase in price will lead to some loss of sales to competitive fibres, the long-term effects of a temporary increase will vary widely between fibres. In some cases, there will be a fall-back in sales which will not easily be recovered after the removal of the increase. In other cases, there will be a fall-back in sales which *can* be recovered after the removal of the increase. Thus, the company must look at the *total* increase of costs incurred and seek to recover it in the way least likely to damage its long-term sales prospects'. In the present case Courtaulds had, in the company's view, no choice; an increase in the price of viscose industrial yarn would have encouraged tyre manufacturers to adjust their processes to use industrial nylon and thereafter 'they would be likely to be unwilling to revert to viscose', while an increase in the price of standard viscose staple and tow would have placed the latter 'at a competitive disadvantage as against cotton'.

* Viscose staple and tow were not actually being produced at Carrickfergus in March 1967; production began in September 1967.

Competition between Courtaulds' textile subsidiaries and the company's outside customers

127. Individual customers have expressed themselves as satisfied that in times of shortage Courtaulds would not give preferential treatment to its own textile subsidiaries. A number of others have, however, alleged (or said that they feared) discrimination in supplies, price or quality, or have referred to the difficulty of competing with Courtaulds' subsidiaries.

128. These matters have already to some extent been considered in describing relations between Courtaulds and its textile subsidiaries (paragraphs 86 to 93). The company has submitted that competition between producers and users of materials exists in many industries and is apparently accepted. In the textile industry all the major vertically integrated groups compete at various stages with customers who have purchased products at the preceding stage and in the man-made fibres industry this is true of other producers besides Courtaulds. In industry generally there are at present two major trends: one towards larger manufacturing groups designed to realise full economies of scale resulting from new technology and automation and producing, particularly in the chemical industry, larger and larger units of a highly capital-intensive nature; the other towards vertical integration, which itself brings certain economies in cost (particularly by promoting better production planning at each stage and consequently more intensive utilisation of capital), besides leading to much greater flexibility and much quicker response to change in demand. In Courtaulds' view there seems to be no better case for a horizontal break at the point at which the material is being produced than there is for a similar break at any other stage.

CHAPTER 7

The case for Courtaulds Limited

129. Courtaulds' submissions and explanations on matters of detail affecting the public interest have where appropriate been included in earlier chapters of our report. The present chapter is therefore primarily concerned with the broader aspects of the company's case.

130. Courtaulds submits that, although as the supplier of over 90 per cent (by weight) of all cellulosic fibres in the United Kingdom it is by statutory definition a monopolist, it is not a monopolist in any sense in which the term is commonly understood. The company explains that the manufacture of cellulosic fibres was in origin and remains in essence part of the total business of supplying raw materials to the textile industry; the bulk of such raw materials has always consisted of natural fibres, nearly all of which are produced overseas. The company says that fibres of all types for which it is responsible account for some 27 per cent of total United Kingdom fibre consumption and its cellulosic fibres for about a quarter (by weight) of that total. Cellulosic fibres are 'replacement, fibres. From the user's point of view Courtaulds' cellulosic fibres represent only one of a number of alternatives, including natural fibres, other types of man-made fibres and in certain trades materials other than fibres, and Courtaulds itself is only one of a number of potential suppliers.