a course of regular conduct as opposed to sporadic incremental pricing in its commonly understood sense, must also be presumed.

*3. European manufacturers selectively price in the U.S. at or below cost.*

Annexed hereto are exhibits pertaining to the full mainufacturing costs of power transformers manufactured in France, Italy, Sweden, and the United Kingdom.[7]

Protected home market sales in those countries are deliberately assigned higher fixed overhead costs than export sales, regardless of the capacity level at which a factory might operate—levels which today, incidentally, are significantly below optimum capacity. As the exhibits show, British export quotations are at or below incremental cost levels; Swedish export quotations are at levels that cannot recover commercial and administrative expense; and Italian exports must depend on export incentive payments to come close to or meet the break-even level.

Detailed cost analysis of four large single-phase power transformers awarded to English Electric Co., Ltd. in 1966 by TVA (Exhibit V above) indicate a pre-tax loss to the manufacturer of $631,400, or failure to recover about 22% of real costs on the delivered equipment. By reference back to Exhibit R, above, it can be understood that such sacrificial export pricing is directly related to and dependent on the high, profitable margins the same manufacturer receives on sales to the CEGB in the protected British market.

There is no indication that European manufacturers of such equipment enjoy cost advantages over U.S. manufacturers. Annexed is an analysis of comparative costs for a particular type of transformer made in Italy, the United Kingdom and the U.S.[8] This analysis, which uses index numbers (General Electric delivered cost in the U.S. equal to 100) shows General Eelectric costs below both Italian costs of 104.7 and British costs of 130.6. In short, General Electric is cost competitive—in materials, direct labor costs, and overhead.

Finally, consider French power circuit breakers. The annexed exhibit[9] compares costs, on an index basis, for a typical rating which a French manufacturer sells in quantity in this country. Overall, on delivered costs into the U.S. the French are at a slight disadvantage, 110.4 to General Electric's 100. Yet, as shown by Exhibit V above, the French are selling this breaker in the U.S. at an outright loss. Nevertheless the French manufacturer can sustain this loss very well because the below-cost prices of three of these breakers in the U.S. are counterbalanced by the margins achieved in a single high profit sale in the protected French home market.

General Electric must conclude, then, that it can, if permitted, deliver power transformers and power circuit breakers into European markets at lower cost than domestic manufacturers can deliver equivalent equipment into their home markets. And, what is more, the Company can do so without dual, or incremental, pricing below prevailing U.S. market prices.

General Electric is confronted, then, by closed markets in the European producers countries and the consequent working of a dual pricing strategy. That strategy is, for the most part, pursued by companies which are among Europe's largest aggregations of economic power. In their hands, it places American heavy electrical manufacturers at a serious disadvantage right here in the United States. It is a strategy almost impossible to defend against, for it precludes the disciplinary effects of fair and open competition in all the markets of the producer countries of the free world.

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[7] Confidential Exhibits R–V.
[8] Confidential Exhibit W.
[9] Confidential Exhibit X.