Exhibit III

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THE PRICING OF HEAVY ELECTRICAL EQUIPMENT: COMPETITION OR AGREEMENT?

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1. *Introduction.*

This paper deals with three types of heavy electrical equipment, the markets for which have important features in common. The questions I try to answer are these. Should the prices at which the equipment is sold be determined by competitive tendering or by agreements? And, if agreements are judged appropriate, what form should they take, who should be party to them and to what controls, if any, should they be subject?[1]

Although our concern is with the way in which prices ought to be set, it is instructive to consider how they have in fact been set in the past. In the United Kingdom, the prices of the equipment that concerns us have been regulated, for the greater part of this century, by agreements between the manufacturers; although these agreements broke down from time to time, we can regard their operation as the normal state of affairs. In recent years, however, this tradition has been broken After an adverse decision, in 1961, by the Restrictive Practices Court, the agreements relating to one type of equipment —transformers—were abandoned. The others have been referred to the Court by the Registrar of Restrictive Trading Agreements but the hearings have been held up pending discussions between the manufacturers and their chief customer—the nationalised electricity authorities.

It is difficult to determine, with confidence, the extent to which the tradition of agreed prices has held sway in countries other than the United Kingdom. Restrictive agreements have for long been illegal in the United States, but the Philadelphia Anti-Trust Cases of 1960 produced evidence of elaborate arrangements to fix prices and share markets that were in effect, covertly, for at least one period in the recent history of the electrical machinery industry. Accounts of this famous 'conspiracy', and of other anti-trust cases involving the industry,[2] leave one with the impression that violations, despite the shocked indignation which they provoke, have been by no means infrequent since the turn of the century. This is not to deny that price competition has been severe at some times, as during the so-called 'white sales' of 1955;[3] collusion, always illegal appears to have been intermittent and often ineffective. Whether the situation is better described as price competition tempered by collusion, or as collusion undermined by rivalries and the enforcement of the laws, I cannot judge. In Continental

[1] This article is an expanded version of a paper which I submitted to the Economic Development Committee for the Electrical Engineering Industry. I am a member of this committee and have benefitted from its discussions. My education has also been advanced through talks with representatives of the industry, but neither the EDC nor the industry bears any responsibility for the views I express.

[2] For an account of these see Corwin D. Edwards, *Big Business and the Policy of Competition*, 1956, pp. 137–41 and 163–64.

[3] When price cutting is believed to have got out of hand it is termed 'white sale'. In 1955 orders for equipment were being accepted at prices up to 50 per cent below normal levels.