

Negotiations along these lines have in fact, I believe, been under way between the parties concerned, but I am not informed as to their progress. Needless to say, there are important issues of principle and of practical administration that require to be resolved. One of these is the appropriate allocation of costs between home and export sales.

First, in the production of heavy electrical equipment there are important overhead costs the allocation of which, between home and export sales, is essentially arbitrary. Capacity installed to make switchgear for the CEGB for example may be used at a later state of its life to produce for export. The development work done to produce ever larger turbo-generators will likewise serve both the home and export markets. In so far as these costs are concerned, any net contribution to them that the manufacturers can obtain from exports will reduce the level of home prices necessary to secure a reasonable return overall. Even if almost the whole of these overheads were attributed to the cost of producing equipment for the home market, it could not be said that the home customer was subsidising exports; without the exports he would have to pay more.

Secondly, it appears to be the case, throughout the world generally, that the domestic price of heavy electrical equipment exceeds the export price. Foreign manufacturers, that is to say, rely on their home markets for recouping the greater part of their overheads. Whether or not we approve of these arrangements, they are a fact of life and the British industry cannot hope to compete overseas unless it operates similarly.

Thirdly, there are no statistics known to me that can provide us with the return earned on capital, in industry generally, on home sales alone. The available figures relate to the return on capital on total business. This is important in that the permitted rate of return on the production of heavy electrical equipment—assuming that this were to be employed in fixing prices—would have to be related to the returns in other industries. If like were to be compared with like, then it is the manufacturers' return on their total sales of the electrical equipment in question that must be considered.

For these three reasons, it seems to me that the prices fixed in any agreement between the industry and the supply authorities ought to be such as afford a normal rate of return to a firm of normal efficiency on its total business, home and export, subject to the condition that export prices are not actually below marginal costs.

A further problem concerns the computation of the capital employed by the firms concerned and, more generally, the structure of production in the industry. The prices set ought to be such as to compensate producers for having installed an amount of capacity sufficient to meet the buyer's needs when at their peak even although that capacity is not currently in full use. But it is possible for excess capacity to exist to an extent greater than that required to meet peak requirements, through lack of co-ordination between the firms' investment plans, technological change, a falling off in export orders or for some other reason. The Generating Board has no obvious obligation to take this particular burden off the firms' shoulders, and yet it may in practice be difficult to measure