

THE MONOPOLIES AND MERGERS COMMISSION

Domestic Gas Appliances

A Report on the Supply
of Certain Domestic Gas Appliances
in the United Kingdom

*Presented to Parliament in pursuance of
Section 83 of the Fair Trading Act 1973*

*Ordered by The House of Commons to be printed
29 July 1980*

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Note by the Department of Trade

In accordance with section 83(3) of the Fair Trading Act 1973, the Secretary of State for Trade has excluded from the copies of the report as laid before Parliament, and as published, certain matters publication of which appears to the Secretary of State to be against the public interest. Accordingly certain figures in the text and in two of the appendices have been omitted. The omissions are indicated by a note in square brackets.

No omissions have been made from Chapter 13, Conclusions and recommendations.

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Introduction

i. On 1 December 1977 the Director General of Fair Trading sent the following reference to the Commission:

FAIR TRADING ACT 1973
MONOPOLY REFERENCE
SUPPLY OF CERTAIN DOMESTIC GAS APPLIANCES

The Director General of Fair Trading in exercise of his powers under sections 47 (1), 49 (1) and 50 (1) of the Fair Trading Act 1973 hereby refers to the Monopolies and Mergers Commission the matter of the existence or possible existence of a monopoly situation in relation to the supply in the United Kingdom of each of the following descriptions of goods, being appliances designed for domestic use and for burning gas supplied through a main (whether or not adaptable to burn gas not so supplied), namely, –

- (i) cookers;
- (ii) space heaters; and
- (iii) instantaneous water heaters.

The Commission shall upon this reference investigate and report on the questions whether a monopoly situation exists in relation to the supply in the United Kingdom of each of the aforementioned descriptions of goods and, if so:

- (a) by virtue of which provisions of section 6 of that Act that monopoly situation is to be taken to exist;
- (b) in favour of what persons that monopoly situation exists;
- (c) whether any steps (by way of uncompetitive practices or otherwise) are being taken by that person or those persons for the purpose of exploiting or maintaining the monopoly situation and, if so, by what uncompetitive practices or in what other way;
- (d) whether any action or omission on the part of that person or those persons is attributable to the existence of a monopoly situation and, if so, what action or omission and in what way it is so attributable; and
- (e) whether any facts found by the Commission in pursuance of their investigations under the preceding provisions of this paragraph operate, or may be expected to operate, against the public interest.

For the purposes of this reference:

‘cookers’ includes ovens, grills, hotplates and spits whether or not supplied separately;

‘space heaters’ does not include boilers or other heaters for central heating systems or gas fires to which boilers are attached; and

‘instantaneous water heaters’ means appliances in which water is immediately heated as it flows to the point of delivery.

The Commission shall report on this reference within a period of two years beginning with the date hereof.

(signed) GORDON BORRIE
DIRECTOR GENERAL OF FAIR TRADING
1 December 1977

The period for completing the report was later extended by direction of the Secretary of State under section 55 (2) of the Fair Trading Act 1973 to 31 May 1980.

ii. On 7 December 1977 the Chairman of the Commission, acting under section 4 of the Fair Trading Act 1973 and paragraph 10(1)(a) of the Schedule 3 thereto, directed that the functions of the Commission in relation to this reference should be discharged through a group consisting of six members of the Commission. The names of those who formed the group are indicated in the list of members which prefaces this report.

iii. Notices inviting interested parties to submit to the Commission evidence relating to the reference were placed in:

The Times
The Guardian
The Financial Times
Domestic Heating
Gas Marketing
Plumbing & Heating Equipment News
Heating & Ventilating Review
British Plumbing & Heating
Builders' Merchants Journal

iv. We sought and received written evidence from the British Gas Corporation, from all the British manufacturers of reference goods, from Chaffoteaux Ltd, and other importers, from the Society of British Gas Industries, the Builders Merchants Federation, the Federation of British Independent Gas Appliance Retailers, several multiple distributors (including the Co-operative Wholesale Society and Comet Radiovision Services Ltd), the National Gas Consumers' Council, the Consumers' Association, the Confederation for the Registration of Gas Installers, the Trades Union Congress, the Department of Energy and several British Embassies and High Commissions. We also took oral evidence from many of these witnesses. In addition a number of other retailers, installers and servicemen, trade associations and individuals offered written evidence or were interviewed by members of the Commission's staff.

v. On 10 April 1979 we informed the British Gas Corporation of our provisional conclusion that monopoly situations existed in its favour, both in relation to the supply to the Corporation of each of the three descriptions of appliance set out in the reference and in relation to the supply by it in the United Kingdom of each description of appliance. On 12 July 1979 we informed Thorn Gas Appliances Ltd of our provisional conclusion that a monopoly situation existed in its favour in relation to the supply by it in the United Kingdom of gas cookers and of gas instantaneous water heaters; at the same time the company was informed of the Commission's provisional conclusion that complex monopoly situation also existed in relation to the supply of each of the three descriptions of appliance set out in the reference. On 16 July 1979 we informed Chaffoteaux Ltd of our provisional conclusion that a monopoly situation existed in its favour in relation to the supply by it in the United Kingdom of gas instantaneous water heaters. In July 1979 we informed each of the other British manufacturers of our provisional conclusion that a complex monopoly situation existed in relation to the supply in the United Kingdom of

such reference appliance or appliances which it supplied. We notified each of the parties mentioned above of the grounds for these provisional conclusions and of the matters which the Commission would need to consider when assessing the bearing on the public interest of the facts found by them in pursuance of their investigation.

vi. Some of the evidence obtained during our inquiry was of a confidential nature: we have been careful not to disclose such evidence in our report unless it is essential for the proper understanding of the issues.

vii. We should like to place on record our thanks to all who have helped us in our inquiry.

CHAPTER 1

Brief History of Gas and Appliance Supply and Definition of the Reference Goods

The gas suppliers

1.1. Prior to nationalisation, town gas was produced and sold by a large number—over 1,000—of private and municipal undertakings. In 1949 the industry was nationalised under the Gas Act 1948. This Act created twelve Area Boards, autonomous statutory corporations whose activities were loosely co-ordinated by the Gas Council: the latter also had responsibilities in the raising of capital, conduct of research and the settlement of terms and conditions of employment.

1.2. In 1971 it was decided to put the full statutory responsibility for gas supply in the hands of a single body, the British Gas Corporation (BGC): the Area Boards were dissolved and their assets and liabilities vested in the BGC, under the Gas Act 1972, on 1 January 1973. The main duty placed on the BGC by the new Act was the development and maintenance of an efficient, co-ordinated and economic system of gas supply in Great Britain: in the supply of gas through pipes BGC was, under section 29 of the Act, granted a statutory monopoly. Other functions devolved on the Corporation under section 2 of the Act included the power to manufacture, sell, hire or otherwise supply, to install, repair, maintain or remove gas (but not other fuel) fittings—fittings being defined to include domestic gas appliances: these powers were, however, permissive and BGC has no statutory monopoly in their exercise.

Development of gas supply

1.3. Gas was first used commercially in Britain—for street lighting—in the late 18th or early 19th century. From then until the 1950s coal was the raw material from which town gas was made. Towards the end of that decade cheaper methods of gas production, based on oil reforming, were introduced. Then, in the early 1960s, the Gas Council, acting on behalf of several of the twelve independent Area Boards, entered into long-term contracts for the importation of liquid natural gas (LNG) from Algeria. The introduction of the oil reforming process led to the development of high pressure gas grids within each Area Board and the use of LNG necessitated the development of a national high pressure transmission system linking the Area Boards involved to the Canvey Island terminal.

1.4. The first North Sea natural gas came ashore in 1967 by which time two decisions had been made: to extend the high pressure transmission system to distribute North Sea Gas to all twelve Area Boards; and to convert the whole of the supply in Great Britain to natural gas. The conversion programme started in 1967 and was completed in 1977: it involved the conversion of most of the domestic appliances then in service.

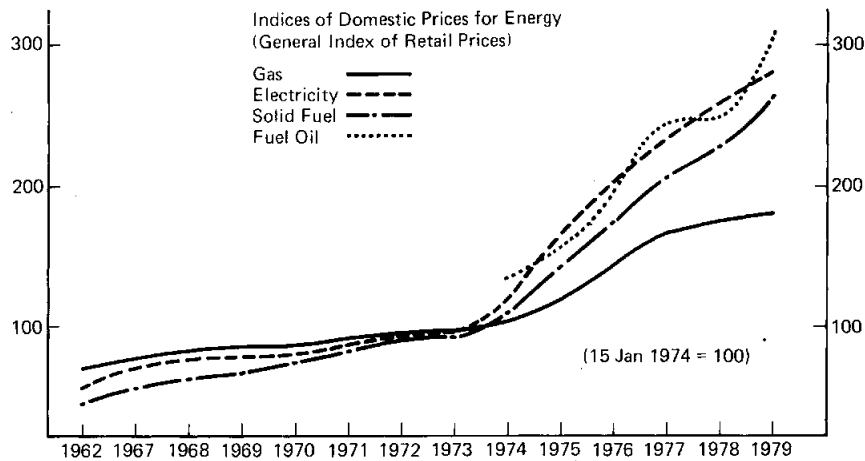
Domestic gas appliance distribution

1.5. Most of the private and municipal undertakings supplying town gas prior to nationalisation also sold gas appliances: together they sold and installed nearly all of the appliances sold to domestic consumers. The number of independent retailers of gas appliances at the time of nationalisation is not known but is thought to have been small—possibly limited to plumbers and builders' merchants selling water heaters and perhaps some fires. The Area Boards continued and developed the sales outlets they acquired on nationalisation and on 1 January 1973 some 980 showrooms or shops were vested by Area Boards in BGC. In addition to shops or showrooms which it directly controls, BGC also inherited a number of agreements with privately owned shops (known as authorised dealers) who effectively operate as extensions of BGC showrooms (paragraph 3.17).

1.6. With the move away from coal as the raw material for its production, gas tended to become a more attractive fuel—not least because it became relatively cheaper (paragraph 1.7). This encouraged the growth of the private sector in appliance retailing from the 1960s and it is estimated that there are now up to 1,000 private gas appliance retail outlets including BGC authorised dealers (paragraph 4.11). Most independent retail outlets (other than Comet, Currys, Trident and the Co-operative Societies) are individually owned or operate in chains of two or three shops (paragraph 2.6). A retailers' association—British Independent Gas Appliance Retailers (BIGAR)—was formed to act as spokesman for these retailers (paragraph 4.13).

Relative competitiveness of gas

1.7. In the period 1962 to 1972 gas prices (measured by the gas component in the retail prices index) increased by 40 per cent (Appendix F). In the same period electricity prices increased by 67 per cent and solid fuel prices by 100 per cent. Subsequently (between 1972 and 1979) gas prices increased by 86 per cent (that is, by 160 per cent over the period as a whole); electricity prices—



substantially affected by oil price rises early in 1974 and increases in the price of coal in 1975—increased by 208 per cent (415 per cent over the whole period) and solid fuel prices by 188 per cent (476 per cent). Relative price movements are illustrated in the chart on page 5. The relative price competitiveness of gas as a fuel (particularly for space heating where large quantities of fuel are consumed) has therefore improved substantially since 1962: this, together with other factors (particularly the recent developments outlined in paragraphs 1.3 and 1.4), resulted in the revival of an industry that was becoming moribund and stimulated the design of appliances which were more attractive to the consumer and were of improved efficiency.

Trends in appliance sales

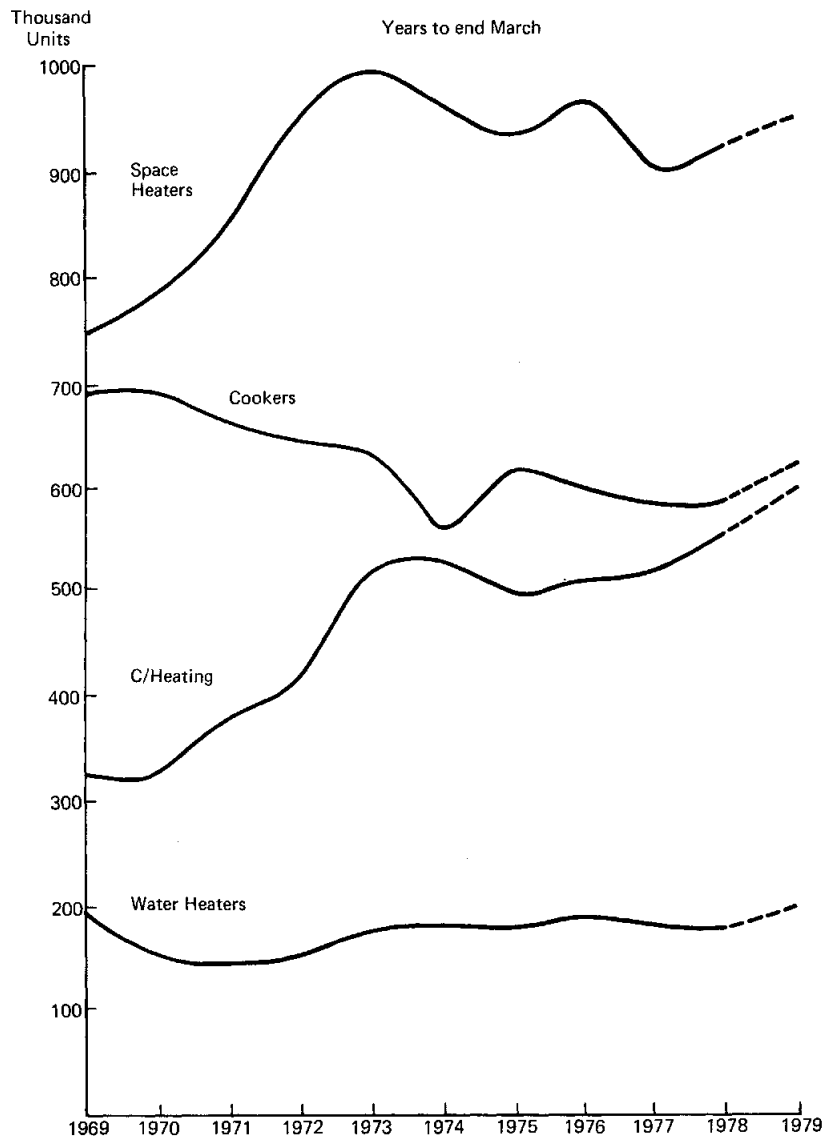
1.8. Total sales of reference goods and of central heating appliances in the last ten years as estimated by BGC are shown on the following chart on page 7. It will be seen that growth areas have been central heating appliances and, up to 1973, space heaters (of these particularly strong growth has been experienced in wall, or unit, heaters which were first imported then developed for manufacture in Britain in about the mid-1970s: essentially these are balanced flue heaters which depend for their heating effect on convection rather than the radiant heat of the traditional gas fire). Cookers have declined consistently over the period until the upturn in 1978–79: one reason for this was that conversion to natural gas usage gave many cookers a new lease of life and deferred the need for their replacement. It is in cookers (and to a lesser extent in water heaters) that BGC sees itself in strong competition with other fuels—particularly electricity: and it is in cookers—because of the relatively small amounts of fuel they use—that the price economies of gas are at least advantage.

1.9. Over 90 per cent of cookers bought in Britain were sold through the BGC in each of the five years to 31 March 1979: in the first nine months of 1979–80, however, the proportion fell a little below 90 per cent (Appendix C). The proportion of space heaters sold through BGC increased in each of the four years to March 1979 when it reached 89 per cent before falling back to 86 per cent in the first nine months of 1979–80. The proportion of water heaters so sold has tended to decline in the period but was still 67 per cent in the first nine months of 1979–80.

The reference goods

1.10. Three types of gas appliance are covered by the reference: cookers, space heaters and instantaneous water heaters. The reference relates only to appliances designed for domestic use and for burning gas supplied through a main. Cookers are defined in the reference to include not only free standing cookers of traditional design but ovens, grills, hotplates and spits supplied separately (thereby bringing the domestic built-in cooker market within the scope of the reference). Space heaters include gas fires and wall heaters: they are defined in the reference to exclude boilers or other heaters for central heating systems or gas fires with back boiler attachments. We have also regarded as not covered by the reference certain appliances designed for decorative rather than heating effect. Gas instantaneous water heaters are defined in the reference as appliances in which water is immediately heated as it flows to the point of delivery: circulators and storage heaters are therefore excluded.

Estimates of sales in Britain by all outlets



Source: British Gas Corporation Annual Report & Accounts for years to 1977-78, 1978-79 estimated by the Monopolies & Mergers Commission

The figures include non-reference products

The second-hand market

1.11. It is known that there is an active second-hand market in gas cookers and space heaters—partly conducted through gas appliance dealers (including small numbers of appliances sold through BGC), second-hand dealers and auctioneers, but mainly relying on advertisements in local newspapers and on shop window notice boards, and in some cases being consequential on a change in house ownership or tenancy. We have seen estimates that some 200,000 second-hand cookers are traded each year in these ways but we have no means of verifying this figure. In view of the facts that the goods involved, and the methods of trading in them, are so different from those in the case of new appliances, we have decided to omit these from our reference under the provisions of section 10(3) and (4) of the Fair Trading Act 1973. There is therefore no further reference to second-hand appliances.

Northern Ireland

1.12. BGC does not supply gas or sell appliances in Northern Ireland (the Gas Act 1972 applies, and its predecessor the Gas Act 1948 applied, only to England, Scotland and Wales). Piped gas (manufactured from petroleum feedstock) in the province is supplied by 13 gas undertakings with statutory powers for its sale in their respective areas: in July 1979 the Government announced that public expenditure on the provision of a natural gas pipeline from Great Britain to Northern Ireland would not be justified. The limited sales potential together with uncertainty concerning the future of piped gas in the province have meant that private retailers have not been attracted to the market and the 13 gas undertakings are the sole suppliers of appliances. Sales of piped gas appliances by the undertakings have fallen sharply in recent years and amounted, in 1978, to only 2,700 cookers, 800 fires and 280 instantaneous water heaters: apart from water heaters, most of the appliances bought were British.

Other countries

1.13. Enquiries were made as to the position in the gas and the gas appliances industries in several other countries. In the USA, Canada and West Germany the supply of piped gas is provided by a mixture of private and municipal undertakings, whilst in France Gaz de France has a monopoly: in the Netherlands Nederlandse Gasunie has a monopoly but sells to local Energy Boards for retail to consumers. The sale of appliances is concentrated in the private sector (department stores, plumbers, specialist retailers and mail order) in the USA and Germany although private and municipal gas suppliers can also sell appliances. In neither the Netherlands nor France do any of the monopoly gas suppliers sell appliances—although Gaz de France (GDF) does sometimes lease space in its offices for the display of gas or electric appliances, and it maintains, often in conjunction with Electricite de France (EDF), offices in most towns of any size to provide advice on energy problems: local Energy Boards in the Netherlands provide display—but not sale—and energy advice facilities for both gas and electric appliances. Payment for gas bills may be made in France at GDF or GDF/EDF offices: in the USA and Canada payment is generally by post or through a bank. Appliance installation companies in the USA must hold a permit from the local authority allowing them to do this work: in Germany and the Netherlands installation work may be done only by approved plumbers or licensed fitters.

Installation and servicing

1.14. Initial installation and subsequent servicing of reference goods in Britain are carried out both by BGC and by companies or individuals in the private sector. BGC inherited, and has maintained, a national service in these activities. The effect of this has been that other servicing organisations have tended to be limited either to an area or to a specific range of products. An association—the Confederation for the Registration of Gas Installers (CORGI)—was established in 1970, after a number of accidents involving gas, with the objective of promoting the safe installation and use of gas pipes, fittings and appliances (paragraphs 8.11 to 8.16).

CHAPTER 2

The Gas and Gas Appliance Industry Today

Gas compared with other fuels

2.1. Paragraph 1.7 and Appendix F show how gas has become a relatively more attractive fuel since the early 1960s. In absolute terms it is now, according to North Thames Gas' Guide to Fuel Running Costs (July 1979), more economic than any of its main competitors. For example, it is estimated that the annual fuel costs for a gas cooker (no other gas appliances used) would be only a little more than half of those of an electric cooker on standard tariff; the annual fuel costs of a gas fire in the main living room (no other gas appliances used) would be about half those of an electric fire and about two-thirds those of solid fuel; and a separate gas fired hot water supply used with other gas appliances would cost rather more than half that of electricity supplied at Economy 7 rates¹. For central heating (not a reference item) and hot water the annual cost of a gas fuelled system in a medium sized house is put at about 80 per cent of solid fuel, 70 per cent of Economy 7 electricity and 60 per cent of oil.

2.2. Estimates made by BGC show that in 1977-78 60 per cent of all gas consumed in the domestic sector was burned in central heating installations (the figure was 54 per cent in 1973-74), 27 per cent was burned in gas fires (24 per cent in 1973-74), 11 per cent in cookers (17 per cent) and 2 per cent in water heaters (4 per cent).

Gas as a fuel—current problems

2.3. The growing price advantage of gas over other fuels, coupled with uncertainty about the availability of oil, led (in mid-1979) to unprecedented demand overall for gas with the result that BGC feared a dangerous imbalance between gas supply (which is limited by output at North Sea wells and by storage capacity) and the maximum demand that might be expected in winter. With this in mind the Corporation, in the autumn of 1979, reduced its promotional activities in reference goods (with the partial exception of replacement items) and in central heating. This, given the dominant position of the BGC in the retailing of reference goods, has had a substantial effect on sales—of cookers and fires in particular—and consequently on production in the second half of 1979-80 (about which manufacturers made representations to the BGC): provisional figures indicate that the number of cookers delivered to the BGC by British manufacturers in 1979-80 was 25 per cent lower than in 1978-79 (despite good results in the early part of the latter year) and deliveries of space heaters 15 per cent lower. BGC decided to renew its promotions from early in 1980 although these were to be concentrated on appliances that would save energy and not add to demand for gas.

¹ Economy 7 is a two-part tariff which offers lower price electricity for a period of seven hours during the night.

Appliance sales—the wholesale and retail levels

2.4. As noted in paragraph 1.9 BGC is the dominant supplier of reference goods accounting (including its wholesale trade) for some 90 per cent of cookers sold in Britain, for some 85–90 per cent of space heaters and some 65–70 per cent of water heaters. The Corporation estimated that, of its total sales of cookers in 1976–77, some 80 per cent were sold through its showrooms: sales by authorised dealers (private retailers who act as agents of BGC) accounted for a further 6 per cent of its sales, and other sales at normal list price by BGC Field Sales, Housing Development and Industrial and Commercial staff accounted for another 11 per cent. In the same year it sold 67 per cent of its space heaters through its showrooms, 3 per cent through authorised dealers and 18 per cent through its Field Sales, etc staff. For water heaters the figures were 44 per cent (through showrooms), 3 per cent (authorised dealers) and 35 per cent (Field Sales, etc). In contrast BGC sells only about one in four central heating boilers.

2.5. In addition to the above sales to domestic customers, BGC has an appreciable wholesale trade (selling, at discount, to installers, local authorities, building contractors, certain other retailers, etc). In 1976–77 these sales amounted to 3 per cent of BGC's total sales of cookers, 12 per cent of space heaters and 18 per cent of water heaters.

2.6. The remainder of the retail market is shared by a few large retailers (Comet and, more recently, some Co-operative Societies, Currys and Trident: these are dealt with in more detail in Chapter 4), a few department stores, a number of small independent retailers (mostly selling through single shops or in groups of two or three and, though possibly more numerous than the other outlets, probably not accounting for substantial sales in total), some builders' merchants, kitchen specialists and installers. In water heaters Chaffoteaux (the United Kingdom subsidiary of a French manufacturer—paragraph 5.112) has a network of about 50 appointed stockists: and these appliances tend to be sold to a greater extent by builders' merchants than do the other reference goods.

2.7. There is only one specialist private wholesaler of reference goods although some builders' merchants supply small retailers and installers at trade prices.

2.8. An association of independent gas appliance retailers—British Independent Gas Appliance Retailers (BIGAR)—has been in existence for five years (paragraph 4.13). The interests of builders' merchants, some of which sell gas appliances, are looked after by the Builders' Merchants Federation (BMF). There is also a Kitchen Specialists Association (KSA) whose interests impinge mainly on built-in cookers (where BGC's share of the market is lower than in other sectors).

Appliance sales—manufacturers and importers

2.9. There are ten British manufacturers which, in the year to 31 March 1978, supplied to the United Kingdom market reference goods to a total value of £105.4 million (delivered value excluding VAT): goods totalling a further £4.2 million were supplied by importers—largely water heaters supplied to

Chaffoteaux by its parent company. The corresponding figures in 1978-79 were: British suppliers £129.6 million, importers £7.9 million approximately. Cookers, of which 591,000 were supplied in 1977-78, accounted for 62.3 per cent by value of the total supply, space heaters (792,000) for 30.6 per cent and water heaters (118,000) for the remaining 7.2 per cent. An analysis by manufacturers of the supply to the United Kingdom market for the years 1973-74 to 1978-79 is at Appendix A.

2.10. The largest supplier of cookers in the United Kingdom is Thorn Gas Appliances Ltd (TGA) which, in 1977-78, supplied to the market 43 per cent of the total number of these appliances. Three other companies (TI Domestic Products, Glynwed and Valor) each supplied between about 10 per cent and 20 per cent of the market. The number of cookers supplied and market shares in 1977-78 and 1978-79 of the six British producers, and of imports, were as follows:

	<i>Number supplied ('000)</i>		<i>Market share (%)</i>	
	<i>1977-78</i>	<i>1978-79</i>	<i>1977-78</i>	<i>1978-79</i>
TGA	253	248	42.8	39.7
TI	119	120	20.1	19.2
Glynwed	76	106	12.9	17.0
Valor	70	62	11.9	9.9
Cannon	51	54	8.6	8.6
Carron	13	19	2.2	3.0
Imports	9	16	1.5	2.6
Total	591	625	100.0	100.0

2.11. The largest producer of space heaters is United Gas Industries Ltd (UGI) which accounted in 1977-78 for about 25 per cent of the total number supplied. Three other companies (Valor, Thorn, and TI) each supplied between 10 per cent and 20 per cent of the market, and there were five smaller producers. The number of space heaters supplied and market share in 1977-78 and 1978-79 of the nine British producers, and of imports, were as follows:

	<i>Number supplied ('000)</i>		<i>Market share (%)</i>	
	<i>1977-78</i>	<i>1978-79</i>	<i>1977-78</i>	<i>1978-79</i>
UGI	199	229	25.1	24.3
Valor	153	211	19.3	22.4
Thorn	138	145	17.5	15.4
TI	106	85	13.4	9.0
Baxendale	57	83	7.2	8.8
Cannon	38	47	4.8	5.0
Glynwed	42	45	5.3	4.8
Economic	30	34	3.8	3.6
W H Dean	5	15	0.6	1.6
Imports	24	48	3.0	5.1
Total	792	942	100.0	100.0

2.12. TGA is also the largest supplier of instantaneous water heaters with, in 1977-78, about 45 per cent of the number of such appliances supplied. Chaffoteaux increased its share (31 per cent by number) of the United Kingdom market in that year whilst that of TI declined to about 23 per cent. Chaffoteaux continued to gain market share in 1978-79 (41 per cent by number) at the expense of both TGA and TI. The number of instantaneous water heaters supplied and market shares in 1977-78 and 1978-79 of the two British producers, of Chaffoteaux and of other imports were as follows:

	<i>Number supplied ('000)</i>		<i>Market share (%)</i>	
	<i>1977-78</i>	<i>1978-79</i>	<i>1977-78</i>	<i>1978-79</i>
TGA	53	54	44.9	38.9
TI	27	26	22.9	18.7
Chaffoteaux	36	57	30.5	41.0
Other imports	2	2	1.7	1.4
Total	118	139	100.0	100.0

2.13. Figures supplied by manufacturers and importers show that in 1977-78 some 93 per cent of the number of cookers, 89 per cent of space heaters and 67 per cent of water heaters produced in Britain or imported were supplied to the British Gas Corporation (BGC). Some manufacturers (eg Valor) sold exclusively or almost exclusively to BGC whilst others sold more to other retailers; but for all manufacturers the BGC is the predominant customer (Appendix D).

2.14. All British manufacturers of reference goods, together with Chaffoteaux (alone among foreign manufacturers), are members of the Society of British Gas Industries (SBGI). There is also another organisation of somewhat lower status and more limited objectives known as the Gas Stove Makers' Panel (GSMP) on which most British manufacturers have been represented. The functions of these organisations are dealt with in Chapter 6.

Market trends and outlook

2.15. The market for gas cookers (as evidenced by delivery figures—Appendix A) has remained fairly consistently around the 600,000 level since 1972-73, rising a little above this in 1978-79 after being a little below in the two previous years. Provisional figures show that sales in 1979-80—affected substantially by BGC's reduced advertising in the autumn and winter of 1979—have fallen to levels well below those of earlier years (Appendix C).

2.16. Manufacturers and retailers of gas cookers see themselves as primarily in competition with manufacturers and retailers of electric cookers. Whilst, as indicated in paragraph 2.1, gas has a substantial fuel cost advantage over electricity, the quantity of fuel used in cooking is not high (paragraph 2.2) and thus the absolute fuel saving afforded by gas cookers is probably not significant enough substantially to affect choice. More important factors (assuming equal availability of gas and electricity) are likely to include relative cooker costs, convenience, design, cooking habits and greater familiarity with one of the fuels. With the present housing programme expected to produce only a little

more than 200,000 new houses per annum in the short term (there were 235,000 completions in 1979 and 220,000 starts), it is clear that the greatest demand for cookers will be for replacement purposes (it was estimated in 1975 that there were some ten and a half million gas cookers and eight million gas fires installed in Britain): but this is expenditure which can often be delayed in periods of financial stringency.

2.17. Manufacturers found it difficult to forecast the size of the market in the next few years but they consider it unlikely that the total market for cookers will grow in the short term and they do not anticipate any substantial change from electric to gas usage, or vice versa, for cooking, although they felt that this situation might be affected by changes in the degree to which each fuel is promoted or by changes in the relative prices of fuels. The BGC felt confident of its ability to forecast market trends and it, also, took the view that the total cooker market would be fairly static over the next few years: it did, however, feel that there was scope for substantial change between fuels.

2.18. Sales of space heaters in 1978-79 recovered sharply after four years of unimpressive performance: much of the recovery was the result of growth in wall heater sales. The recovery continued into the first months of 1979-80 but was brought to an abrupt halt in the autumn of 1979 by the difficulties of providing new gas supplies and by the withdrawal of BGC from active promotion of gas sales and appliances which would increase demand for gas (paragraph 2.3). The outlook for space heaters is perhaps a little better than for cookers since the potential savings in fuel costs over other fuels are greater so long as the relative price advantage of gas remains.

2.19. Water heater sales changed little between 1972 and 1975 and in 1978-79 were at the same level as the average for the previous six years. Substantial competition is afforded by electric water heaters and by electric shower units.

Foreign trade

2.20. Foreign trade in reference goods is very small except for imports of water heaters by Chaffoteaux. Exports of reference goods by British manufacturers in 1978-79 (Appendix B) were only 2.4 per cent of their total value of sales, and imports (including Chaffoteaux) were only 5.7 per cent of the total supply to the United Kingdom market of such goods.

2.21. Exports are mainly to Commonwealth and EEC countries: imports are mainly from EEC countries (paragraph 5.111). As regards cookers (exports 3.2 per cent of the value of manufacturers' sales in 1978-79: imports 3.0 per cent of supply), manufacturers say that the reasons for the low level of trade are, firstly, that British cooking habits are rather different to those of most other countries (eg most foreign ovens are indirectly heated whereas the British housewife prefers—or is more familiar with—the stratified heating effect of the directly heated oven; the continental housewife does not need or use a high output grill); and, secondly, different countries demand differing technical standards. Given these two factors, British manufacturers have hesitated to commit large sums in the pursuit of continental markets. Conversely, continental

exporters have tended not to enter the British market for free standing cookers although several continental manufacturers have had some success in the growing built-in market. As regards space heaters (exports 1.1 per cent of manufacturers' sales: imports 4.7 per cent of supply) we were told that, besides differing technical standards there is little continental demand for the radiant gas fire (evolved in Britain to replace the traditional coal fire), that British appliances are of insufficient output to satisfy continental consumers, and that the balanced flue is not always acceptable on the continent. Some continental exporters have had a limited success in wall heaters however. In water heaters (exports 0.7 per cent of sales: imports 36.0 per cent of supply), however, Chaffoteaux has made substantial inroads into the British market (adapting its models to balanced flue operation for the British market).

2.22. Discussions are taking place in the EEC and in the Comité Européenne de Normalisation (CEN) on the harmonisation of standards for gas appliances. Two directives, a framework directive and a special directive concerning instantaneous water heaters; are awaiting adoption. The special directive on water heaters requires compliance with European Standard EN 26 (published by BSI as BS 5386 Part 1). The directives are of the 'optional' kind, that is once the appliances have been examined and approved by one member state as conforming to the standards laid down, they cannot be denied access to other markets in the Community.

The British Gas Corporation

3.1. As indicated earlier the main statutory duty placed on the British Gas Corporation is the development and maintenance of an efficient, co-ordinated and economic system of gas supply in Britain. In carrying out this duty, the Corporation was given the power (but not the duty), *inter alia*, to supply (including to sell, hire and fit) appliances.

Organisation

3.2. The functions of BGC are organised in seven Divisions dealing with production and supply, finance, economic planning, marketing, personnel, research and development, and resources and external affairs. Each Division is responsible for the central direction of policy in its own sphere, although implementation is largely left to the Regions. Sales of gas appliances fall—along with industrial, commercial and domestic gas sales—within the responsibilities of the Marketing Division of which the principal policy-making instrument is the Marketing Policy Committee: to this a subsidiary committee—the Domestic Sales Committee—makes recommendations more specifically on appliance marketing.

3.3. The Corporation's regional organisation is based on the areas of the former Area Boards—the intention being to leave considerable scope for local initiative in the application of policies set centrally by BGC. Each BGC Region is headed by a Regional Chairman who is responsible to the Corporation for the conduct of BGC business within his Region. He is supported in this by an Executive Committee normally consisting of directors responsible for each of the areas of responsibility, except research and development, covered by headquarters Divisions. Each Region is set financial and operating targets, by headquarters, following submission each year of its proposals for an operating programme for the ensuing five years. Performance against these targets is monitored but, within the detailed objectives set it by headquarters, the implementation of policy is left to the Region.

Gas usage

3.4. In 1966–67 (before North Sea natural gas was available) the Area Boards sold a total of 3,755 million therms of gas (valued at £354 million), 60 per cent of it to domestic consumers (68 per cent by value) of whom there were 12·3 million: 24 per cent of gas sold went to industrial users (17 per cent by value) and 16 per cent (15 per cent by value) to commercial users. By 1978–79 the total amount of gas sold had more than quadrupled to 15,934 million therms (valued at £2,524 million): of this, gas sold to industry had increased sixfold by volume, taking 38 per cent of the total (29 per cent by value). Domestic consumption, although increasing to nearly three and a half times its 1966–67 amount, had

fallen to about 50 per cent of total sales (58 per cent by value): the number of domestic consumers had increased by 17 per cent to 14.3 million. BGC stated that it prefers to sell gas into the premium markets, that is the domestic market together with those industrial and commercial appliances which acknowledge a premium value for gas. BGC sales of appliances (including sales of central heating boilers and other non-reference goods) in 1978-79 (£186.7 million) constituted only 6.3 per cent of the Corporation's total turnover: sales of reference goods (£174.5 million) constituted only 5.9 per cent of total turnover.

Appliance marketing

3.5. When the BGC came into being in 1973 it was decided to co-ordinate that marketing of domestic appliances which was in the hands of the former Area Boards. From 1973 onwards the Corporation sought to rationalise the product range where there had been a proliferation of models all of which were available through the old Area Boards (to order, if not stocked) and for which service had to be available after sale. To this end, after discussion with the SBGI, a National Sales List was introduced in April 1975. Sales Listing involves the BGC firstly in carrying out an exhaustive appraisal of new appliances to establish, in its judgment, the market acceptability, the relationship with competing products and the serviceability of such new appliances together with the likely availability of spare parts. Appliances which satisfy this appraisal are then subjected to a detailed technical and safety study. Appliances which satisfy both the marketing and technical criteria may then be included in the National Sales List. It is usual for each Region to maintain two Lists—an A list for those appliances normally kept in stock and advertised, promoted and displayed and a B List for appliances which are sold but not normally advertised, promoted or displayed. The decision whether to put an appliance included in the National Sales List on the A or B List or, infrequently, on neither, is taken by each Region individually relying on local commercial judgment. This discretion did not extend to Superflame models (paragraph 3.7) which were automatically included in each Region's A List. The introduction of Sales listing led to a major rationalisation of the range of reference products offered—from 253 in March 1972 to 127 in June 1978.

3.6. At the same time BGC sought to rationalise and improve other spheres of its operations. One such area was the number of points to which manufacturers make deliveries. In nine out of the twelve Regions there is one central store: in two other Regions there are three delivery points and rationalisation is under way in the twelfth Region. Another area of improvement is the provision of sales and call-off forecasts to manufacturers (paragraph 3.11). In BGC's view the combination of these elements enables manufacturers to achieve significant economies in production and distribution.

3.7. In the early 1970s BGC became concerned at the falling share of the cooker market held by gas and also at the erosion of its own market share by independent retailers: the Corporation felt that, if it was to achieve the requisite performance demanded of its Appliance Marketing Account (paragraph 3.33) it would need to reverse the trend to the use of electricity as a fuel for cooking and also retain for itself a large share of the market. To this end, BGC undertook

various evaluations to measure the 'value for money' of both gas and electric cookers and carried out market research to determine consumer preference. A number of Design Presentations were held with manufacturers including two major Cooker Design Presentations at Watson House in 1973 and 1975. 1973-74 was declared by BGC to be the 'Year of the Cooker'. The basic purpose of the programme was to make manufacturers more aware of the main aspects in which gas cookers were failing to match electrical cookers and to encourage improvements in design. As part of this programme, BGC began to market cookers incorporating advanced features which would compete more directly with the electric cooker. Initially it was its intention to market such cookers exclusively under a BGC badge but manufacturers objected to this on the grounds that brand identity, which they felt to be important, would be lost. Ultimately it decided to introduce the new range of cookers under the designation Superflame. Agreements were reached with the leading manufacturers under which the appliances selected for Superflame designation would be available for sale only to BGC; certain listed operational and design features were to be incorporated by the manufacturer and not used on other appliances available for general sale; and the 'Superflame' logo was to be included with the company brand name on the nameplate. In return these appliances were to appear in the National Sales List and all were to be 'A listed' and stocked, displayed and sold buy all Regions: they were also to be subject of a two year guarantee by BGC. A few space heaters were later brought within the ambit of these arrangements. At the height of the Superflame scheme eleven cookers were so designated: and out of some 25 freestanding cookers and 49 space or unit heaters on the 1978-79 National Sales List eight cookers and three fires were designated Superflame. Between 1973 and 1979 the share held by gas of the total initial purchase (ie non-replacement) cooker market increased from 40 per cent to 55 per cent.

3.8. No new cookers were added to the Superflame list after October 1976 and, in September 1979, BGC announced to manufacturers that the Superflame scheme was to be allowed to lapse.

3.9. The BGC also operates a system of special offers. It undertakes special campaigns for cookers at certain times in the year (generally spring and late autumn) and, normally, for other appliances at other times (generally early autumn for space heaters and spring for water heaters). Each of these campaigns lasts for some 8 to 13 weeks and is nationally organised and advertised, but details of the offers to be made are usually a matter for Regional decision. In addition, the Regions mount their own campaigns. Together, these campaigns can take up a substantial part of the year. In the course of these campaigns it is customary to offer favourable trade-in terms together with, in some cases, free installation. One of the factors which influences the choice of models to be the subject of these special terms is the terms agreed by BGC with manufacturers. BGC told us that one of the factors which influences the level of reductions offered to the customer is the local pattern of competition from electrical appliances and other retailers of gas appliances. Particular price reductions may be made at local level to meet such competition. The total amount of reductions from list price made in 1977-78 on reference goods was £10.8 million on a turnover for that year of £137.7 million.

3.10. It is usual in these campaigns for each Region to decide which models to feature. The featured models will have greater prominence than other models in showroom displays and in the Region's advertising. In addition to the discount to be contributed by the Region, regional sales forces seek to encourage competition between manufacturers on the size of their own discounts and the level of these discounts is a factor in the choice of models to be featured: the total amount contributed by manufacturers in 1977-78 was said to be £0.75 million.

BGC's purchase of appliances

3.11. Manufacturers are provided by BGC with global sales forecasts (compiled from regional estimates) at least one year ahead with estimates of global monthly requirements. Regions order directly from manufacturers and commitments to purchase specific models are typically made three months in advance of requirements: the nomination of call-off quantities and dates is the subject of continuous consultation between the two parties. There have been few centrally negotiated contracts for the purchase of reference goods.

3.12. BGC expects suppliers to give its Regions' orders priority over the orders of other purchasers whose orders were placed after theirs. BGC told us that exceptional circumstances have also arisen when its advertising or promotional campaigns have so stimulated demand that there was a temporary shortage of goods: in such circumstances, BGC or its Regions have asked manufacturers first to supply their requirements even if their orders post-date the orders of other retailers, and manufacturers, it is understood, have complied. Furthermore, at least one manufacturer regards BGC as having exclusive retail rights to new models for up to a year from the date of their introduction: the Corporation states that it did not seek such priority and is unaware that such rights are accorded it.

3.13. As far as can be determined, there have always been certain differentials between the prices at which manufacturers would sell to the BGC (or the old Area Boards) and the prices at which they would sell the same appliance to other retailers. We are told by the BGC that, prior to 1973, the general level of such differentials appears to have been about 5 per cent and upwards (some reaching $12\frac{1}{2}$ per cent). In 1973 and 1974 BGC sought (through the SBGI) the agreement of manufacturers to the general adoption in its favour of increased price differentials. This was, in the BGC's view, warranted by the advantages which manufacturers enjoyed by selling through it (eg the economies of planning and delivery afforded by the scale of BGC's orders; its wide retail network; its credit-worthiness, maintenance service and R & D effort; its promotional effort; and its contribution to rationalisation made by the National Sales Listing Scheme). We understand that each manufacturer made his own response to this approach, but that it resulted in a general increase in differentials (although the scale of the increase would seem to have varied between manufacturers). The general effect was that the new differentials represented a higher proportion of the price paid by private retailers at the date of the reference to the Commission than had been the case in 1972. From early 1979 better terms have been offered by some manufacturers to some of the larger retailers and builders' merchants with the result that differentials between prices to them and to BGC is now smaller than hitherto: differentials for other retailers generally remain at the higher levels (see Appendix E).

The retail sale of appliances by BGC

3.14. The BGC's major selling effort is directed through its showrooms, of which there were 938 in April 1978 (Appendix G). Although it has reduced the number of showrooms in operation in the last five years (there were 981 in 1973-74) the total quantity of reference goods sold through showrooms has increased from 743,000 units in 1973-74 to 1,006,000 in 1977-78: in the latter year total showroom sales value was £105.6 million. Even so, one in four showrooms had a turnover, in 1978, of less than £25,000 (equivalent to the sale of just over two cookers per week); the Corporation told us that it keeps such showrooms open for public service and social reasons.

3.15. The BGC states that, typically, only 20 per cent of showroom man-hours are spent on selling gas appliances whilst a large part of the rest is devoted to activities in which its independent competitors would not be involved. These other activities are: accounting transactions such as gas bill and hire purchase payments from customers (35 per cent of man-hours); giving advice to customers (15 per cent); answering queries from customers (15 per cent); the balance (15 per cent) is stated to be training, administration and waiting time. BGC feels that these other activities cannot be regarded strictly as related to appliance marketing.

3.16. The performance of showrooms is closely monitored by Regional management which make comparative evaluations of effectiveness. BGC headquarters do not normally become involved in these evaluations, but do have an indirect interest in them through their monitoring of overall regional performance. Decisions are made at regional level on the closure of an existing showroom, or the opening and siting of a new one: when making such decisions considerable weight is given to non-commercial factors such as are outlined in paragraph 3.15.

3.17. In addition to showrooms there are 205 authorised dealers (Appendix G), private retailers who operate as agents of BGC, selling appliances (including Superflame products) at BGC prices (standard prices or discounted as may be the case at any time), dealing with service enquiries and, in most cases, handling gas account payments. The number of authorised dealers varies greatly between Regions, the West Midlands, North Thames and South Eastern Regions having substantially the greatest proportion. In some Regions (eg North Thames) some large department stores are authorised dealers. The contracts under which they operate vary as to the extent to which they are allowed to sell non-gas or non-BGC approved goods.

3.18. The BGC calculates its normal retail selling price by applying standard uplifts to its buying price from the manufacturers. The uplifts are (figures calculated on buying price excluding VAT):

Cookers (a) to 1.8.78: 55 per cent on the first £75 of buying price and 25 per cent on the remainder;

(b) from 1.8.78: 45 per cent on the first £125 and 30 per cent on the remainder.

Other appliances (except multipoints and unit heaters) 55 per cent

Multipoints 52 per cent

Unit heaters 40 per cent

The average gross margin on normal retail prices before special offers is about 32 per cent: but after special offers the average gross margin in 1977-78 was 23.6 per cent.

The wholesaling of appliances by BGC

3.19. As indicated earlier (paragraph 2.5) BGC conducts an appreciable wholesale trade—some 16,000 cookers, 78,000 space heaters, and 23,000 water heaters being sold to qualifying customers at this level in 1976-77: the total value of this trade was £6.4 million or 5.6 per cent of the total value of BGC's appliance sales (including sales by the authorised dealers). Qualifying customers include installers, building contractors, local authorities and government departments: wholesale sales may also be made to other retailers, but this is a matter for regional discretion in each case.

3.20. Wholesale terms are normally:

for one appliance: 15 per cent off retail price for space heaters and water heaters, 10 per cent off for cookers

for two to five appliances: 17½ per cent off all reference goods

for six to ten appliances: 20 per cent off all reference goods

for over ten appliances: Regions are free to negotiate sale terms.

Regions offer an additional 2½ per cent discount for collected orders when practical.

Promotions

3.21. BGC considers promotional campaigns to be the most effective way of ensuring the achievement of its gas marketing and appliance sales objectives. There are two main forms of promotion:

(a) national campaigns. These, planned centrally, take place once or twice a year for each reference product group;

(b) additional regional or area promotions at the discretion of regional management.

In 1977-78 each Region mounted, on average, six cooker, seven space heater and three water heater promotions (including national promotions). For 1979-80 however, as noted in paragraph 2.3, the promotion of appliances which increase gas load was severely restricted. Promotions usually consist of co-ordinated advertising, display and merchandising offers with price reductions. In 1977-78 the total value of special offers to domestic customers for reference products was:

	<i>Cookers</i>	<i>Space heaters</i>	<i>Water heaters</i>	<i>Total</i>
£m	6.369	4.077	0.403	10.849
% of BGC sales	7.3	9.9	3.7	7.9

3.22. Advertising expenditure on reference goods is more difficult to assess because it is regarded by BGC as principally aimed at selling gas and because it may cover several appliances or appliances plus gas promotion. But BGC's estimated apportionment for 1977-78 between appliances featured in advertisements is:

	<i>Cooking</i>	<i>Space heating</i>	<i>Water heating</i>	<i>Total ref. goods</i>
£m	3.2	2.6	0.5	6.3

Thus advertising featuring reference appliances averaged about 5 per cent of total appliance sales. Thirty-eight per cent of such expenditure is through newspapers, 34 per cent through TV. Manufacturers make contributions to the cost of special offers and promotional advertising: in 1977-78 these contributions totalled £1.25 million).

Installation and servicing

3.23. Essential services (eg meter work, emergency work, request servicing and work under appliance guarantees) are undertaken for the gas consumer by the BGC in its role as the supplier of gas and as a public service. These services are either not charged to the consumer or, if charged, produce little revenue. Their gross cost—charged to the main gas account—was estimated at £128 million in 1977-78.

3.24. Appliance installation and contract servicing are treated by BGC as separate trading activities. Scales of charges are laid down for such work on reference products as they are for on-demand servicing (revenue from the latter is included, for accounting purposes, in the gas account): these charges have been regarded by private sector installers as not economic. BGC said, however, that efforts which it has made to increase installation and servicing charges have been frustrated by political and consumer interests and by national economic policies. Further, the distinction made by BGC between the public service aspects of service work (regarded as part of the commitment to supply gas) and the contracting side (which is intended to be self-financing) has been blurred by recommendations of the King Report (June 1977): the latter, which followed a series of gas explosions, drew attention, *inter alia*, to the contribution which regular servicing schemes could make to safety and urged the BGC to have regard to this in its servicing charges policy.

3.25. Increases in installation and servicing charges were proposed to the Price Commission and, following that Commission's approval, were implemented from 1 June 1979: they averaged 25 per cent over the whole installation and servicing field. It is expected that they will reduce—but not eliminate—the losses which have been a feature of this account over the past six years (paragraph 3.36).

3.26. The BGC sub-contracts to other bodies some 5-6 per cent of installation work (though little servicing) on reference products, as well as a much higher proportion (80-90 per cent) of that central heating work for which it is initially

contracted. It strongly supports the activities of the Confederation for the Registration of Gas Installers and sub-contracts work only to CORGI members. Target standards for the quality of service have been established by the BGC and are monitored continuously.

3.27. There is an understanding between BGC and the manufacturers that BGC will undertake or bear the whole costs of repair and rectification work on reference goods sold by BGC without charge to the customer during the guarantee period—this is normally one year, but two in the case of Superflame products. The appliance manufacturer will replace any parts exchanged by BGC during the course of carrying out guarantee and rectification work within one year of purchase without charge to BGC.

Spare parts

3.28. Substantial stocks are held by BGC Regions. Based on past sales patterns, these are designed to enable Regions to meet up to 95 per cent of the demand for spares out of their stock of normal items, and at least 90 per cent of demand out of the total range of 125,000 items. The stock held is, however, designed as a source of supply for BGC's own installation servicing organisations or for its agents or sub-contractors: it is not generally intended as a source of supply for the private retail or installation sector or the general public. Regions are expected, in the case of approved appliances not bought from British Gas or an authorised dealer, to provide the best service possible within the capabilities of their stores facilities but the target standards do not automatically apply.

3.29. By agreement between the BGC and the SBGI functional parts will normally be supplied by the manufacturer for up to 15 years after cessation of production, and non-functional parts for up to ten years: these periods may be reduced if demand falls below 50 a year.

Safety

3.30. BGC believes that as the supplier of gas it must exercise the chief responsibility for ensuring safety, since accidents causing public concern more often arise from faults in the installation or maintenance of the gas pipe system or from the installation or maintenance of appliances than from failures of appliances themselves. For this reason sophisticated research into aspects of gas safety has been funded by gas authorities for many years. There cannot, in the Corporation's opinion, be a clear cut distinction between research into appliance development and research into gas safety: close liaison between the gas supplier and the appliance manufacturer is essential. Among the BGC's technical establishments the one now chiefly concerned with the safety and the domestic utilisation of gas (including the development of appliances) is Watson House, Fulham, and this has established a close link with the appliance manufacturing industry: this establishment is also involved in the testing of appliances and components for British Standards Institute Quality Assurance Control safety certification and their testing for Sales listing purposes.

Imports

3.31. Foreign appliances are purchased by BGC when, in its opinion, they will fill a gap in the supply available from British sources or when they will improve the product range, and a number of appliances produced by foreign manufacturers have been sales listed (eg cookers by Scholtes, space heaters by Benraad, Drugasar, Vulcana and Prometheus, and water heaters by Chaffoteaux, Prometheus and Lennox). But, with the exception of Chaffoteaux, import levels are low and, in the BGC's view, many foreign products are ill adapted to the needs of the British market.

Services to exports

3.32. In 1976 BGC was a partner in the establishment of a joint company, United Kingdom Gas Appliances Advisory Services Ltd (UKGAAS), the objective of which was to provide advice and assistance to manufacturers of gas appliances and associated equipment in meeting the growing market for such appliances and equipment in the EEC and elsewhere overseas. Services are provided to British manufacturers on a fee basis (though fees are insufficient to meet the full costs of the company) and a number of manufacturers have used them. The service is also available to foreign importers into the United Kingdom and the company has acted temporarily as agent for a foreign manufacturer when its United Kingdom importing agent went into liquidation. BGC hopes that the company will eventually become financially viable.

Financial objectives

3.33. The Gas Act 1972 charges the BGC with the duty to ensure that, taking one year with another, the combined revenues of the BGC and its subsidiary companies are sufficient to meet the total outgoings properly chargeable to revenue account and to meet such allocations to reserves as are considered adequate. The Act lays down no specific financial stipulation as regards appliance marketing or as regards installation or contracting services. However, in 1971 a Joint Working Party on Appliance Retailing and Installation, on which both the Gas Council and the Department of Trade and Industry were represented, considered these matters. Amongst other things the Report pointed out that if Area Board showrooms were making a profit (properly calculated) the private sector would be encouraged into appliance sales and would take a larger share of the market. As a result of these considerations the Minister for Industry in an exchange of correspondence with the Gas Council expressed his concern to see the development of a healthy private sector and, to this end, asked the Council (a) to change its accounting practice so as to ensure that the costs and revenues of each of its main activities (gas sales, contracting and appliance sales) were fully and clearly separated with uniform and realistic allocation of joint costs, and (b) to raise the level of return on each of these activities—with a view, eventually, to attaining a full commercial rate. The view of the BGC (as the Gas Council's successor) is that these activities should be accounted for separately (as the Gas Account, the Appliance Marketing Account and the Installation and Contracting Account) and it therefore produces separate profit and loss figures for (a) its gas and oil sales, (b) its appliance marketing activities, and (c) its installation and contracting activities. In order to do this it has to allocate between them those of its costs which do not lie exclusively within one of these three sectors of its activities.

Financial information

3.34. For the year ended 31 March 1979 BGC in its accounts showed a return on capital employed before interest and taxation of 6 per cent. This return was after deducting supplementary depreciation to reflect the replacement cost of its assets and approximates to a current cost return. The profits on an historic cost basis and before interest and taxation were equivalent to a return of 20 per cent on turnover and 28 per cent on capital employed.

3.35. The operations of BGC are reported under three principal activities, namely Gas, Installation and Contracting and Appliance Marketing. Gas relates to the acquisition and distribution of gas supplies together with associated essential services. Essential services include work on appliances under guarantee and the servicing of appliances not under a regular service contract. Installation and Contracting relates to the installation of gas services, and appliances, the installation of central heating systems (which is largely contracted out) and the regular servicing of appliances under contract. Appliance Marketing principally relates to the sale of reference products.

3.36. A summary of turnover and profits or losses arising from the various activities based on the published accounts for the three years to 31 March 1979 is set out at Appendix H 1. The results indicate that, on an historic cost basis, Gas earned substantial profits although trading profit decreased in 1978-79 apparently principally because tariffs and services charges remained unchanged between April 1977 and March 1979. Installation and Contracting has consistently operated at a loss but Appliance Marketing has improved from about break even in 1976-77 to a profit of some £10 million in 1978-79.

3.37. Details of turnover, costs, profits and capital employed in respect of Appliance Marketing for the five years to 31 March 1979 are set out at Appendices H 2 and 3 in which turnover is shown at normal retail prices, ie at cost plus the standard percentage uplift, whereas in Appendix H 1, based on the published accounts, turnover is shown after deduction of special offers but including hire purchase loading net of interest (sub-paragraph (i) below). Turnover includes some non-reference trading but the amount does not exceed 7 per cent of the total and therefore is not considered material to our inquiry. Appendix H 3 shows costs allocated to Appliance Marketing as a percentage of turnover. Costs are allocated between Gas, Installation and Contracting and Appliance Marketing on various bases and at Appendix H 4 we set out the apportionment of those costs of the Corporation which are subject to allocation, ie other than the cost of prime materials and appliances for the year to 31 March 1979. The bases of BGC's allocation to Appliance Marketing are set out below.

(a) Showroom expenses

Regional assessments showed that of the time spent by showroom staff on their various duties, about one-quarter is spent in selling and three-quarters on customer accounts service, advice and general administration. Accordingly approximately three-quarters of showroom salaries and wages (other than sales commission which is wholly attributed to Appliance Marketing) is transferred to Gas. Showroom overheads are also allocated on the same basis.

(b) Other selling expenses

These consist of commission payments to authorised dealers and are charged wholly to Appliance Marketing.

- (c) Field salesmen's salaries* and associated costs are charged wholly to Appliance Marketing although a substantial part of the time of these employees was, until recently, spent in promoting central heating sales and other work including accounts queries, service enquiries and estimates etc. Central heating installation is largely contracted out and is accounted for under Installation and Contracting. Appliance Marketing, however, is credited each year with an allowance equivalent to 5 per cent of the sales value of central heating systems sold to reflect the selling time spent on promoting gas central heating.

(d) Advertising and special offers

Sales promotion by way of advertising is not separately identifiable as between Gas and Appliance Marketing and is wholly charged to Gas including advertisements featuring domestic appliances. Special offers, the whole of which is charged to Appliance Marketing, relates to expenditure incurred on sales promotion by way of discounts, special reductions in sales campaigns, trade-in allowances, free fixing offers, discounts on trade and central heating sales and premium offers. BGC told us that both forms of promotion have the principal objective of promoting the sale of gas and the allocation of these costs reflects the difficulty of relating this expenditure to the sale of gas or to the sale of appliances which are directly linked to developing the domestic market for gas.

(e) Purchasing and stores

This function covers the stocking of pipes, engineering and installation materials, parts, meters and fittings as well as appliances. The cost of workshop activities, stock variations and provisions are charged directly to the appropriate accounts. The balance is allocated on the basis of standard percentages established following an assessment of the actual activity involved.

(f) Sales administration

This represents salaries, wages, travelling and other sundry expenditure including premises, costs of Domestic Sales Managers and their clerical support within the regions, the whole of which is charged to Appliance Marketing without adjustment for showroom time spent on other activities.

(g) Customer accounting

The proportion of the total cost of billing and collection of accounts related to the sale of appliances for cash or on hire purchase is allocated to Appliance Marketing by each Region according to work load.

(h) Other costs

This heading covers bad debts on appliance sales, computer charges and sundry expenditure which are allocated to activities on the basis of usage and depreciation of fixed assets allocated to appliance marketing (paragraph 3.38).

(i) *Hire purchase costs recovered*

This represents part of the loading charged to customers in respect of extended credit facilities to cover the cost of finance, administration and bad debts. A proportion of the loading is credited to the trading account each year over the life of the debt less that part attributable to the cost of finance which is set-off against interest payable in the consolidated profit and loss account. The Appliance Marketing account therefore shows the result of trading excluding the cost of servicing hire purchase and deferred credit transactions. A considerable proportion of appliances sold by BGC are sold on hire purchase. BGC argued that its hire purchase business was an integral part of its retailing activity and that it would be correct to assess the appliance marketing activity by including HP interest earned but without charging the cost of financing HP transactions. Details of the results including HP interest received but before charging the cost of finance are included in Appendices H 2 and H 3.

As these costs are substantial the bases of allocation are material to the ultimate trading results represented as Appliance Marketing.

3.38. Capital employed includes fixed assets averaging some £15 million which at 31 March 1979 comprised:

	£m
Showrooms	8.5
Other land and buildings	4.3
Fixtures and fittings	0.6
Vehicles	1.0
Total	14.4

The value of showrooms relates almost entirely to freehold premises. The values of leasehold premises are only included to the extent that a premium was paid for the lease and when initial expenditure was incurred on refurbishing. Of the 931 showrooms in operation during 1978-79 436 were freehold and 495 leasehold. BGC's freehold premises tend to be older properties, often in poorer districts, and thus have a relatively lower value whereas the newer showrooms, especially those in city centres, tend to be leased. Other land and buildings represents an allocation for warehouses, stores and administrative facilities attributed to appliance marketing on the basis of regional assessment. Of fixed assets totalling £14.4 million in 1978-79 it would seem some £10 million comprising showrooms, fixtures and fittings and vehicles could be apportioned between Appliance Marketing and other activities but BGC consider that although any such apportionment, if made, would be material, it would not be useful or right for management purposes because of difficulties in allocating capital to particular products in a multi-product business. Rents on leasehold premises are included in showroom expenses of which 76 per cent has been allocated to the sale of gas.

3.39. BGC pointed out that no system of cost allocation is beyond question, but the Corporation believes that, generally, its system provides a reasonable presentation of appliance marketing. The Appliance Marketing Account forms a part of the accounts of the Corporation as a whole which have been audited by a firm of external auditors appointed by the Secretary of State for Energy.

Other Wholesalers, Retailers and Servicemen

Wholesalers

4.1. Until recently there were no specialist wholesalers of gas appliances. Wholesale sales were made:

- (a) in some Regions by BGC to qualifying customers (paragraphs 3.19–3.20);
- (b) by builders' merchants to independent retailers or installers;
- (c) for foreign goods, by stockists, agents or importers to independent retailers or installers.

The bulk of supplies to independent retailers, however, were—and still are—provided directly by manufacturers. But within the last two years:

- (i) one specialist wholesaler has started operations
- (ii) the CWS has started to purchase appliances for supply to Co-operative Retail Societies in certain parts of Britain (paragraphs 4.6–4.8).

In February 1980 a large wholesaler of domestic electrical goods gave consideration to extending its activities into gas appliance wholesaling. After analysis of current costs and margins it concluded that it would not be a profitable venture.

Retailers

Comet Radiovision Services Ltd

4.2. This company (which gave evidence to the Commission—paragraphs 8.27–8.30) was, until recently, the only large multiple retailer (the Co-operative Societies apart) and sold reference goods from most of its branches (which now number about 150 excluding its Timberland interests). Its sales of gas cookers, space heaters and water heaters—which it buys directly from manufacturers—started only in 1974 (on the acquisition of an existing retailer—Gas Trend Ltd) and still form only a small proportion of the company's total turnover. The company estimated that it accounted for about $4\frac{1}{2}$ per cent of the United Kingdom gas cooker market in 1979 (this compared with $2\frac{1}{4}$ per cent in 1976): in the electric cooker market it estimated that it held some 8 per cent of the British market. In 1977 it held about $1\frac{3}{4}$ per cent of the gas fire market; this share increased to approaching 3 per cent in 1979.

4.3. Comet does not itself provide an installation service but maintains links with local, CORGI-registered, installers and instructs its salesmen to suggest to customers the employment of one of these (it will provide lists or suggest names). The company does, however, itself provide a maintenance and repair service and is itself on the CORGI register: its maintenance and repair staff have received training from the appliance manufacturers as well as in-house training.

Currys Ltd

4.4. Currys entered the gas appliance field in November 1979 (paragraph 8.33), having sold electric cookers and electric fires for many years. A small range of gas cookers (which it buys directly from manufacturers) is now being sold from some 45 shops.

4.5. Installation of cookers sold through its shops is put into the hands of local CORGI installers whenever possible (the company said that problems of adequate installation were one of several inhibiting factors to earlier entry to the market, and the selection of shops for the initial launch was partly governed by the availability and strength of local CORGI representation). Servicing of goods sold is being handled by Currys' Group Services (CGS) whose staff are being trained with the help of manufacturers. CGS depots have been equipped with the necessary sets of spare parts.

Co-operative Societies

4.6. A few local co-operative societies have, for some time, sold gas appliances—mostly in small quantities and after buying-in from local BGC Regions. In April 1979, however, following an initiative by the CWS, a pilot scheme was launched under which a number of retail societies (in areas where it was thought that adequate installation and servicing arrangements could be provided) started selling gas cookers and space heaters purchased by the CWS directly from manufacturers. Appliances made by all the major manufacturers are available (paragraphs 8.31–8.32).

4.7. Following the success of the pilot scheme it was decided, towards the end of 1979, to increase the number of retail societies through which sales would be made and to continue this expansion as societies became equipped to sell (particularly as adequate installation and servicing arrangements could be made). Some 30 retail societies were, early in 1980, selling gas cookers and space heaters and it was expected that a further 20–30 would start during the remainder of the year.

4.8. Arrangements were made by the CWS with the Gas Services Association (GSA: an association of companies—including some large contractors—having a national spread of branches or depots which can offer an installation service in most areas) under which certain of the Association's members would install and service appliances sold by the retail societies. GSA or CORGI members are used whenever installation or servicing is requested by appliance purchasers: in some areas BGC also will install approved appliances sold by the retail societies.

Trident

4.9. At the end of February 1980 the Trident multiple chain (a subsidiary of Telefusion Ltd) launched a pilot scheme selling a limited range of cookers and fires from seven centres in the Midlands and Hertfordshire. Purchasers of appliances are being given a list of local CORGI registered installers: Trident are monitoring installers' performance. If the pilot scheme is successful retailing of gas appliances will be expanded.

Other retailers

4.10. Apart from authorised dealers which act as agents of the BGC (see paragraph 3.17) and the four multiple retailers mentioned above, the remainder of the retail sector is largely fragmented consisting of a number of independent retailers specialising in domestic appliances (mostly owning one shop, serving a single locality and often also selling appliances using fuels other than gas), a few department stores, a number of builders' merchants and kitchen specialists generally supplying built-in cookers.

Size of independent sector

4.11. BGC estimated that, early in 1978, there were some 535 independent retail outlets (including Comet and some Co-operative Society shops but excluding its 226 authorised dealers): with the increased participation of the Co-operative Societies, the entry of Currys and probably some limited growth in the number of builders' merchants, kitchen specialists and small specialist gas appliance retailers, it seems likely that the number of independent outlets (excluding authorised dealers) is now in excess of 700. In 1977-78, British manufacturers and Chaffoteaux supplied to this sector (excluding authorised dealers who are supplied through BGC) some 32,000 cookers (estimated to be valued at approximately £4 million), 89,000 space heaters (£4 million) and 40,000 water heaters (£2½ million): these represented 5½ per cent, 11½ per cent and 34½ per cent respectively of these suppliers' total deliveries in Great Britain in that year.

Source of retailers' supplies

4.12. In the case of the large retailers, supplies of appliances are generally obtained directly from manufacturers; the smaller independent retailers (other than authorised dealers who are supplied by BGC) obtain supplies from a variety of sources—direct from manufacturers, from the sole specialist wholesaler (in the case of Chaffoteaux water heaters from an approved stockist), or from BGC on wholesale terms where the facility is available.

Federation of British Independent Gas Appliance Retailers (BIGAR)

4.13. BIGAR was set up in 1974 to promote the interests of the smaller independent gas retailer in competition with BGC. Membership is currently around 70 and tends to be concentrated in the Midlands and North of England. The Federation gave oral and written evidence to the Commission (paragraphs 8.6-8.7).

Installers and servicemen

4.14. The number of businesses engaged in gas installation and service operating in Britain is not known with any precision but it is thought by the Confederation for the Registration of Gas Installers (CORGI—paragraphs 8.11 to 8.16) that it might be in the region of 16,000: this figure, however, includes very small businesses, businesses engaged in non-reference goods or activities

(eg gas pipe laying, central heating installation) and businesses which engage in installation or service as a subsidiary to their main trade (eg certain appliance retailers). According to a survey of its members conducted by CORGI, by far the greatest number of businesses employ fewer than six staff and a substantial number are one man businesses.

4.15. The law does not require that installers or servicemen should have formal qualifications for their work or that they should be registered or licensed—only that appliances shall be installed by ‘competent’ persons. Nevertheless, more than half of the total estimated number engaged in installation or servicing (an increasing number now totalling over 9,000) are registered with CORGI. A number of complaints have been received from installers and servicemen about the lack of training opportunities for gas fitters (paragraph 8.15) and about BGC’s installation and servicing charges (paragraphs 7.5 and 8.7).

The Manufacturers and Importers

The manufacturers

5.1. There are ten British manufacturers of reference goods (six manufacturing cookers, nine fires and two water heaters) of which four (Thorn Gas Appliances Ltd, Tube Investments Ltd, United Gas Industries Ltd and Valor Company Ltd) together supply about 70 per cent of all such appliances sold in the United Kingdom.

Thorn Gas Appliances Ltd (TGA)

5.2. TGA is wholly owned by Thorn EMI Ltd (TEMI). Thorn's interest in domestic gas appliances arises from its acquisition in 1965 of Glover & Main Ltd (one of whose subsidiaries, R & A Main Ltd, manufactured gas cookers, fires and water heaters) and, in 1971, of Parkinson Cowan Ltd (a subsidiary of which manufactured gas cookers and fires). Subsequently the Group was reorganised so that TGA is the unit within the Group now responsible for the manufacture of these appliances under the brand names Main, Parkinson Cowan and Moffat. Sales in United Kingdom of reference products in 1977-78 at £37.2 million represented about 3 per cent of the total sales of the Thorn Group which are substantially of consumer and industrial electronic and electrical goods, including electric cookers (with which TGA is in competition).

5.3. In 1977-78 TGA supplied about 43 per cent (by number) of the United Kingdom market for gas cookers and about 45 per cent of the market for instantaneous water heaters: it is, therefore, a scale monopolist in respect of both these types of appliance. In the same period some 90 per cent of the value of TGA's sales of gas cookers were to BGC together with some 69 per cent of its sales of water heaters. Its sales of space heaters (it supplied about 18 per cent of the United Kingdom market) were also predominantly to BGC.

5.4. There were ten free standing cookers in TGA's range in mid-1978: these were priced within the lower to middle price ranges. Of these, nine cookers appeared on BGC's National cooker Sales List for that year: six of these were designated as Superflame models (paragraph 3.7) and were thus available only to BGC. One cooker—the Main Lincoln—was designed specifically for the independent retail trader and was not sales listed by BGC. In addition to the range of free standing cookers, TGA manufactured the Moffat range of built-in equipment: this was available to BGC and other retailers alike.

5.5. Four instantaneous water heaters (a sink model and three multipoints) were produced by TGA in 1978. These were available to BGC and other retailers alike.

5.6. TGA's range of space heaters in 1978 totalled seven: none of these was a unit heater. Six out of the seven space heaters were on the BGC's National Sales List but none was designated a Superflame model and all were available also to independent retailers.

5.7. TGA's production is centred on factories at Edmonton (where Main gas cookers, Moffat ovens and grills and some space heaters are manufactured), Stechford (Parkinson Cowan cookers, some Moffat hotplates and some space heaters) and Padiham (water heaters and most space heaters). Some non-reference products are made at each location—in substantial quantities at Edmonton and Padiham. The Stechford factory is being re-organised and re-equipped with modern automated plant at a capital cost (including building work) expected to total £5 million to £6 million in the seven years to March 1980. It has recently been announced that cooker production will be rationalised so that, in 1981, all production line cookers should be made at Stechford whilst batch produced cookers and most Moffat units will be made at Edmonton (where some £1.3 million has been, or is being, invested). Padiham, where some £1.6 million has been committed in respect of reference goods, will continue to concentrate on water heaters and space heaters—although some space heaters will continue to be made at Edmonton and Stechford.

5.8. It is the company's opinion that, if it is to be able to compete in the major overseas markets (or against determined foreign competition in the United Kingdom), its level of production and consequent economies of scale must be comparable with its foreign competitors. Hence its planning and investment programmes are based on a projected maximum output of 7,300 cookers per week of which the maximum capacity at Stechford will be 6,000 depending on the type and mix of cookers being produced (the initial target will be 5,500): the company said that, even at quite substantially lower levels of production, the investment at Stechford would strengthen its competitive position. Total sales of gas cookers in the United Kingdom home market in 1978-79 were a little under 12,000 per week of which TGA supplies a little under 5,000. The company will need, therefore, to expand its cooker sales somewhat if it is going to utilise its capacity and produce at optimum rates. TGA's capacity for space heater and water heater production is, to a greater extent than for cookers, in excess of current sales and a substantial increase in sales will be necessary to achieve optimum production.

5.9. TGA states that in the event of a shortage of appliances it accords some priority to major accounts—which it considers to be normal commercial practice: its largest account is with BGC. A number of complaints have been received by the Commission about this aspect of manufacturers' practices (paragraphs 7.4 and 8.9).

5.10. Market research is conducted, in the main, independently of BGC. TGA states that the company itself is the source of its own innovations and designs: it does not regard the BGC as its principal source of ideas. However, it has also said that, as BGC is by far its most important customer for cookers and space heaters, it must give weight to the Corporation's expressed preferences in regard to specific features or components. Equally it is unlikely that models

containing major innovations or features of which BGC disapproves could find enough alternative outlets to earn adequate profits. Some indication of this problem is to be found in the history of a dual-fuel cooker on which a design exercise (including the building of prototypes) was carried out by Main in 1973 and 1974. Although the project was initially encouraged by BGC, the Corporation declined to market the new model unless a gas version of similar specification was also introduced. Also difficulties were foreseen in deciding whether it should be sold and serviced by the gas or by the electricity authorities. In view of these problems, and increased doubts as to its market prospects, the project lapsed.

5.11. Expenditure by TGA on design and development in the six years to end March 1979 has averaged about 2.0 per cent of sales:

	£'000
1973-74	408
1974-75	496
1975-76	651
1976-77	745
1977-78	860
1978-79	1,035

Much of this effort has been concerned with the continual updating of appliances, including the introduction of features such as spark ignition.

5.12. TGA promotes its appliances in two ways: by direct advertising to the ultimate consumer; and by supporting BGC local promotions (this is done either by giving a promotional allowance off the price of the appliance or by contributing to BGC's advertising costs). Direct advertising has been the chief form of promotion in recent years. However, whilst local support averaged only 10 per cent of total promotional costs in the three years to end March 1976, this form of promotion increased to 22 per cent of costs in 1976-77 and 26½ per cent in 1977-78 and 1978-79. The sums involved are as follows:

	(£'000)					
	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79
Direct advertising	489	595	576	645	1,128	1,115
Support to BGC	75	47	59	184	409	407
	<u>564</u>	<u>642</u>	<u>635</u>	<u>829</u>	<u>1,537</u>	<u>1,522</u>
Percentage of sales of reference goods	3.5	2.7	2.4	2.5	4.1	3.4

5.13. Appendix B shows that the volume of exports of cookers has not, in the five years to end March 1978, exceeded 2.5 per cent of sales of reference goods, that the export of space heaters has virtually ceased and that exports of instantaneous water heaters are virtually nil. A subsidiary company (TGA (International) Ltd) whose function is to promote overseas sales of TGA's gas appliances started trading in 1975-76.

5.14. TGA has carried out design exercises on cookers of a type thought to be more acceptable in European markets, but no plans at present exist for their production. Discussions have taken place with European cooker and water

heater manufacturers with a view to TGA using such appliances as a means of testing overseas markets: it is TGA's intention if these tests are successful, as they have been in one case, to design and manufacture its own equivalent appliance in order to compete in that market in the longer term.

5.15. The company's policy is to supply spare parts to the BGC, trade customers and any *bona fide* organisations competent to fit them. As a matter of policy for safety reasons it does not supply private 'do-it-yourself' customers. TGA aims to hold stocks of every part likely to be needed. It is the policy of BGC Regions, whenever possible, to indent for spares in bulk when their stock has fallen to a pre-determined minimum—but numerous single orders are received both from Regions and from independent retailers and installers. But, since no wholesale stockists of gas appliance spares exist, all retailers are dependent on TGA stocks being adequate and, on occasions, have found that certain spare parts are not immediately obtainable.

5.16. TGA is a member of the SBGI and of the GSMP (Chapter 6). Representatives of the company have attended meetings of these two organisations and have taken part in discussions within these fora.

5.17. Like other manufacturers TGA, after pressure by the BGC and after discussion in the SBGI (paragraph 6.5 (a)), increased the differentials between the prices it charged for appliances sold to BGC and those sold to other distributors. Recently, however, TGA has agreed somewhat better terms and prices—and thus smaller differentials—for customers taking, or expected to take, large volumes of appliances.

5.18. A number of other policies and practices have been the subject of discussion, formally within SBGI or GSMP and informally outside these bodies, between TGA and other gas appliance manufacturers. These are dealt with in Chapters 6, 10 and 12.

5.19. In 1977 there were exploratory discussions between TGA and Tube Investments Ltd about the future of the water heater industry in the light of the success of Chaffoteaux' entry into the United Kingdom market.

5.20. An appraisal of the financial results of TGA for the six years to 31 March 1979 is at Appendices I 1 to I 3. The results include exports, conversion units and miscellaneous products such as spit kits etc, not all of which fall within the terms of the reference but which are not separable for reporting purposes. Appendix I 1 shows sales and gross profits according to products together with net profit and capital employed for the business as a whole. The profits shown expressed as a percentage of turnover and capital employed were as follows:

	Year to 31 March					
	1974	1975	1976	1977	1978	1979
	%	%	%	%	%	%
<i>Gross margins</i>						
Cookers						
Fires and unit heaters						
Water heaters						
Conversion units						
Spares						
Miscellaneous						
Total—average						
Adjustments						
<i>Adjusted gross margins</i>						
Overheads						
<i>Return on sales before interest and tax</i>	6.3	7.3	3.8	5.3	9.0	7.3
<i>Return on capital employed (historic cost basis)</i>	24.1	28.0	12.5	18.0	36.7	27.3

[Details omitted.
See note on page iv.]

5.21. The increase in the total gross margin in 1977-78 was mainly due to sales of cookers, particularly increased sales of built-in units. Margins on fires and water heaters also increased but to a smaller extent and had less effect on total profit because of the lower turnover from those products. The margin of 50 per cent on spares is considered to be justified because of the need to carry stocks for non-current models for possibly up to 15 years. The net return on sales represents the average for all products including conversion units and spares, both of which earned above average gross margins, but it is not possible to allocate overheads to calculate the net return on particular products. However, the allocation of overheads on an arbitrary basis indicates that during the first three years net profits were largely dependent upon the sale of spares and conversion units. In the last three years sales of spares appear to have contributed about one-third of the total profit but sales of conversion units had decreased to nil. The improvement in gross margins in the last two years is attributed to:

- (a) improved efficiency;
- (b) increased sales of the more profitable built-in units;
- (c) increased prices of reference products arising from a reappraisal of pricing policy;
- (d) improved labour relations.

5.22. The figures at Appendix I 2 indicate that during the six years to 31 March 1979 TGA's average return on capital employed was above that of the non-electrical engineering industry and manufacturing industry generally which averaged some 17 per cent and 16 per cent respectively on an historic cost basis. Value added per employee was about the same as for the non-electrical engineer-

ing industry but the company's productivity ratio (value added per £ of emoluments) was some 16 per cent lower indicating that employees' average remuneration was above that of that industry.

5.23. The source and application of funds statement at Appendix I 3 shows that over the six years TGA did not generate sufficient funds for its requirements. Fixed assets purchased during the period totalled some £8.3 million comprising £4.9 million for additional buildings and plant and £1.7 million for replacements in respect of gas appliances and £1.7 million invested in fixed assets for the manufacture of electrical tumble driers for Thorn Domestic Appliances (Electrical) Ltd.

Tube Investments Ltd (TI)

5.24. The companies within the TI Group concerned with reference products are TI Gas Heating Ltd (which controls Radiation Ascot Ltd and Glow Worm Ltd), TI New World Ltd, TI Gas Spares Ltd and TI Gas Controls Ltd. These companies form part of the gas products group which, together with the electrical products group (manufacturing competing electric cookers, space heaters and water heaters) and three other product groups, form TI Domestic Appliances Ltd (TIDA), a major Division within the TI Group's corporate structure. Sales in the United Kingdom of reference goods in 1977-78, at £19.4 million, represented less than 2 per cent of TI Group turnover.

5.25. TI acquired Radiation Ltd in 1967. At that time Radiation included under its control two companies producing cookers, one producing space heaters, and one—Ascot Gas Water Heaters Ltd—producing gas water heaters. A period of rationalisation followed the acquisition of Radiation and capacity was reduced the better to accord with demand. The final rationalisation of cooker production took place in 1975 when production of these appliances was consolidated at Warrington under the company now known as TI New World Ltd.

5.26. Radiation had concentrated gas space heater manufacture at Birmingham and all water heater manufacture at Neasden prior to the TI acquisition in 1967. However, since demand for both gas space heaters and water heaters was declining, TI took the decision to transfer water heaters to join space heater manufacture in Birmingham in 1976. The Birmingham company was renamed Radiation Ascot Ltd.

5.27. Small numbers of space heaters are also made at Belper by Glow Worm Ltd (predominantly a manufacturer of central heating boilers) which was acquired by TI in 1975. Space heaters are marketed under the brand names Radiation and Glow Worm.

5.28. TIDA held approximately 20 per cent by number of the United Kingdom gas cooker market in 1977-78, about 14 per cent of the gas space heater market and some 23 per cent of the instantaneous water heater market: its share of the market of gas space and water heaters has fallen significantly over the last five years. TIDA's sales of domestic gas appliances are predominantly to the BGC

(cookers 90 per cent, space heaters 79 per cent and water heaters 71 per cent). Despite the rationalisations referred to in paragraphs 5.25 and 5.26, both Radiation Ascot and TI New World find difficulty in fully employing their capacity.

5.29. Seven New World models of cooker were on the market in mid-1978 and of these five were sales listed by BGC, only one being designated a Superflame model. Five of the models on offer were in the middle price range, with one at the lower end and one in the luxury class. There were also ten models of space heater (eight sales listed, two Superflame) and four models of water heater (all sales listed but none Superflame). TIDA did not offer any built-in gas appliances.

5.30. Capital investment by Radiation Ascot and TI New World in the five years to the end of 1977 (other than on tooling and new models) has been mainly on medium sized replacement and cost reduction schemes, eight of which (mainly completed in 1976 and 1977) have cost some £560,000 in total. Several further schemes—with the emphasis on replacement, automation and cost reduction, and expected to cost £50,000 to £500,000 each—are expected to take place over the next two to three years.

5.31. No significant amount of market research is undertaken by Radiation Ascot and Glow Worm on gas fires, and only a small amount by TI New World, in Britain although substantial expenditure is being incurred in specific overseas markets. Although TIDA says that the innovation of new designs and products is carried out independently of BGC, it states that the chief influences on its choice of models and other major marketing decisions are BGC requirements.

5.32. Design and development expenditure related to reference products in the last five years has been between 1.8 per cent and 2.8 per cent of turnover (that is £300,000 to £450,000). The emphasis of this work in the earlier years was on problems concerned with conversion but in the later years, in liaison with BGC, on work connected with achieving higher standards of efficiency and safety. Since 1978, a substantial increase over and above the basic level of expenditure is being incurred in TI New World and is related to both home and specific export markets.

5.33. The promotion of reference products is carried out both independently of, and in conjunction with, BGC. The sums involved have been as follows:

	1973	1974	1975	1976	1977	1978
£'000	536	344	480	540	684	374
Percentage of sales of reference goods excluding conversion units	4.3	2.4	2.8	2.8	3.1	1.5

5.34. In the case of TI New World recent emphasis has been on discounting, advertising and promotions in conjunction with BGC, the initiative for such promotions usually coming from BGC. The company believes that the practice of discounting has generally reduced margins in the industry without necessarily increasing total sales.

5.35. The company states that, although there is no formal agreement or policy that guarantees BGC priority of deliveries, it does in practice accord the BGC priority on items in short supply. This is said to be because of the BGC's dominance of the distribution system and the fact that new product introductions are often geared to a specific BGC campaign or promotional offer.

5.36. Exports of cookers by TI New World have varied between 4 per cent and 8 per cent of total sales. Space heater exports were small and have remained static apart from 1975-76 and 1976-77 but water heater exports have declined from 9 per cent in 1974-75 to 0.6 per cent in 1978-79. TIDA sees little prospect for any major growth in overseas markets. It considers the main problems to be technical; significant differences in consumer preferences, cooking habits and performance requirements; the general decline in the overseas gas cooker business; low priced competition; and competition from indigenous suppliers.

5.37. Radiation Ascot and TI New World spare parts are available to trade customers and distributors but are not normally supplied direct to the general public. Glow Worm spares for reference goods are available to all customers though, for safety reasons, householders are encouraged to acquire them from BGC. Whilst repair work on gas appliances still under guarantee is normally handled by the distributor, another company within the Division—TI Domestic Appliance Services Ltd (TIDAS)—provides back-up service. TIDAS acts as a central service organisation both for electrical products and for out-of-guarantee work on gas appliances. In the latter field TIDAS is in competition with BGC and independent service companies. Reference products account for 17 per cent of TIDAS's workload. Because it feels that quality of after-sales service is so important to the success of the appliance manufacturing side, it is the company's policy to increase the volume of post-guarantee work performed by TIDAS.

5.38. TI New World, Radiation Ascot and Glow Worm are members of the SBGI and of the GSMP (Chapter 6) and representatives of the companies have attended the meetings and have taken part in the discussions of these organisations.

5.39. Like other manufacturers TIDA, after pressure by the BGC and after discussions in the SBGI (paragraph 6.5 (a)), increased the differentials between the prices it charged for appliances sold to BGC and the prices for similar appliances sold to other retailers.

5.40. A number of other policies and practices have been the subject of discussion, formally within SBGI or GSMP and informally outside these bodies, between the relevant TIDA gas appliance companies and other gas appliance manufacturers. These are dealt with in Chapters 6, 10 and 12.

5.41. The composite financial results of trading in reference goods by those companies within TIDA for the six years to 31 December 1978 are shown at Appendices J 1 and J 2. Profits/losses before interest and tax expressed as a percentage of sales and capital employed were as follows:

	Year to 31 December					
	1973	1974	1975	1976	1977	1978
Return on sales—before interest and tax	%	%	%	%	%	%
Cookers	[[Details omitted. See note on page iv.]]
Fires						
Water heaters						
Conversion units						
Spares						
Total—average	4.7	[0.5]	[0.2]	[3.6]	[5.0]	0.0
Return on capital employed (historic cost)	14.2	[1.1]	[0.5]	[11.3]	[12.8]	0.1

5.42. The above figures and those at Appendix J 1 indicate that the companies were dependent upon profits from the sale of conversion units and spares to offset losses on the sale of appliances. Consequently, total losses have increased as sales of conversion units have decreased notwithstanding some improvement in the margins on fires and (albeit still loss-making) cookers. The results also reflect to some extent the decrease in volume of sales of cookers, fires and water heaters over the six years and disruption arising from the reorganisation to concentrate production by transferring the manufacture of cookers from Leeds to Warrington during 1974 and 1975 and water heaters from London to Birmingham during 1975 and 1976.

5.43. The figures at Appendix J 2 illustrate the deterioration in TIDA's operations in the reference products until 1977 but possibly indicate signs of a recovery in 1978.

Glynwed Domestic Heating Appliances Ltd

5.44. Glynwed Domestic Heating Appliances Ltd (Glynwed), which is a subsidiary of Glynwed Ltd, is responsible for the manufacture of reference products. It includes two divisions, Sidney Flavel & Co and Leisure Domestic Division, both of which manufacture gas cookers and gas fires (including LPG cookers and fires for caravans and boats). These are sold under the brand names Flavel and Leisure respectively. Production is currently at factories at Leamington Spa and Audenshaw but the company is in the process of concentrating fire production at Audenshaw. Sales in Britain of reference products in 1977-78 at £10.4 million were only 3.7 per cent of total Group turnover: the Group has wide interests including steel products and engineering, steel stockholding and distribution, copper and ferrous tubes, bathroom fittings, catering equipment and central heating boilers.

5.45. Glynwed supplied some 13 per cent of the United Kingdom gas cooker market and about 5 per cent of the gas space heater market. Ninety-seven per cent of cookers are sold through BGC and 77 per cent of space heaters. The Leisure range includes built-in cookers as well as a free standing cooker. No Glynwed product has been Superflamed and none is exclusive to BGC.

5.46. Unlike most other manufacturers Glynwed does not adhere to fixed prices for predetermined quantities of appliances. Rather the company negotiates a price on the ex-factory selling price of the appliance plus the estimated costs of delivery.

5.47. Fixed capital investment by Flavel and Leisure during the three years ended December 1977 has totalled £412,000 and £287,000 respectively (these figures include investment on production facilities for non-reference goods). This represents about 2.6 per cent of sales of reference goods in the three years.

5.48. Glynwed relies mainly on BGC for its market research although it will occasionally initiate its own. It is convinced that a market exists for a good basic gas cooker without automatic ignition or other expensive marketing features. But it is equally convinced that such a cooker would not be sales listed (and would not therefore be sold) by BGC: thus, since the independent sector of the retail market is insufficient to support sales in sufficient numbers (and hence the economic production of such a basic cooker) neither it, nor other manufacturers, is willing to take the risk.

5.49. Expenditure by Glynwed on design and development in the three years to end-1977 has been:

	£'000
1975	185
1976	228
1977	282

(Figures include expenditure on non-reference goods.) This is between 2 and 3 per cent of sales of reference goods.

5.50. Advertising of reference goods is carried out both independently of, and in conjunction with, BGC. The sums involved in the three years to end-1977 have been (£'000):

	1975	1976	1977
Direct advertising	139	173	222
Support to BGC (special discount)	16	20	37
Total	<u>155</u>	<u>193</u>	<u>259</u>
Percentage of sales of reference goods	1.7	2.6	2.5

5.51. Exports (Appendix B) of cookers have at no time exceeded 2 per cent of the value of total gas cooker sales and have declined in the last three years. Exports of fires, likewise, have been small. The company sees little prospect of developing export markets: the problem, it feels, is as much the nationalistic attitudes of foreign test houses as the differing characteristics demanded by consumers.

5.52. Glynwed is a member of SBGI and of the GSMP (Chapter 6): representatives of the company have attended meetings of both organisations and taken part in their discussions. SBGI and GSMP have been the fora in which a number of policies and practices of interests to the industry have been discussed and these are dealt with in Chapters 6, 10 and 12.

5.53. The financial results of Glynwed are shown in Appendix K. Sales, profits and capital employed for the six years to 31 December 1978 were as follows:

	Year to 31 December					
	1973	1974	1975	1976	1977	1978
	£'000	£'000	£'000	£'000	£'000	£'000
<i>Sales</i>						
Reference goods	4,113	6,637	8,855	7,443	10,571	16,692
Other products	6,531	13,669	15,443	16,754	19,689	22,471
<i>Total sales</i>	<u>10,644</u>	<u>20,306</u>	<u>24,298</u>	<u>24,197</u>	<u>30,260</u>	<u>39,163</u>
<i>Profit [Loss] before interest and tax</i>						
	[178]	[683]	537	[478]	150	944
<i>Capital employed</i>	5,449	7,499	9,733	9,849	9,470	10,325
<i>Return on sales</i>	[1.7]%	[3.4]%	2.2%	[2.0]%	0.5%	2.4%
<i>Return on capital employed (historic cost)</i>	[3.3]%	[9.1]%	5.5%	[4.9]%	1.6%	9.1%

Reference products average some 35 per cent of total sales but it is not apparent to what extent the trading results as a whole reflect trading in reference goods.

The Valor Company Ltd

5.54. Two companies within the Valor Group manufacture reference products—Valor Newhome Ltd (which produces gas cookers and gas space heaters, together with liquid petroleum gas appliances, at Rainhill) and Valor Heating Ltd (which produces gas and oil space heaters at Erdington). Valor entered the gas cooker business when it took over Newhome in 1973–74. Sales in United Kingdom of reference goods in 1977–78 at £12.9 million represented some 34 per cent of Group turnover.

5.55. When Valor entered the cooker market it dropped the less successful parts of the Newhome range concentrating on a limited number of lower-middle price range models. Its market share in 1977–78 was 12 per cent by number (8 per cent by value)—a little higher by number, but lower by value, than in the mid-70s. Valor have been particularly successful in space heater sales, nearly doubling the number of units sold and their market share between 1972–73 and 1977–78 and achieving a market share of about 19 per cent by number (22 per cent by value) in 1977–78: these shares were further increased to 22 per cent and 25 per cent respectively in 1978–79. A wide range of space heaters (both fires and wall heaters) is offered and some of the models on which Valor has built its success (starting with the Copperglo in 1970–71) are of distinctive styling and technical characteristics.

5.56. In 1975 Valor decided that it would be advantageous to retail its gas appliances exclusively through the Corporation. In 1975 and 1976 it entered into contracts with BGC in respect of two cookers and a space heater (all Superflame goods). In addition, in a somewhat unusual step for the gas appliance industry, a contract for a specified number of non-Superflame cookers was entered into with BGC in July 1975. This contract, the company told us, was

occasioned by BGC's inability (due to industrial relations problems) to sell the gas/electric cooker which had been introduced by Valor with BGC encouragement, and the need to utilise stocks of components acquired in anticipation of substantial sales of the mixed fuel cooker. From 1975 until 1979 virtually all sales of Valor goods were made through BGC: in that year a limited number of sales started to be made to the independent sector although Valor has made it clear that, where supply is limited, priority is given to BGC as the major customer, although every effort is made to satisfy all customers.

5.57. Fixed capital investment by Valor in the two companies producing reference goods has totalled £2.1 million in the three years to end-March 1977: some of this investment is in respect of non-reference products (about 50 per cent of these companies' sales is of non-reference products).

5.58. Valor conducts its own market research.

5.59. Expenditure on design and development by Valor Newhome and Valor Heating in the three years to end-March 1978 has averaged £190,000 per year (including work on non-reference products)—about 1.5 per cent of the value of gas cookers and space heaters sold.

5.60. Valor's advertising expenditure has grown rapidly—both in respect of cookers (an increase of 150 per cent in the three years to 31 March 1978) and of space heaters (214 per cent). Expenditure in 1977-78 totalled £416,000 representing 3.2 per cent of sales: of this £337,000 was support for BGC promotions.

5.61. Exports of cookers, though small, grew steadily between 1973-74 and 1977-78 (both in value and as a proportion of total sales), but did not exceed 2 per cent of the value of total sales until 1978-79 when they increased to 9 per cent (five times the 1977-78 value). Space heater exports, however, reached a peak in 1975-76 (4.5 per cent of sales value) and have since declined to 0.7 per cent.

5.62. Valor is a member of the SBGI and of GSMP (Chapter 6) and representatives of the company have attended the meetings and have taken part in the discussions of these organisations.

5.63. The combined sales, profits and capital employed of Valor Newhome and Valor Heating for the six years to 31 March 1979 are shown at Appendix L and are summarised in the table on page 44. On average, reference products represent some 50 per cent of total sales but it is not apparent to what extent the trading results as a whole reflect trading in reference goods.

Cannon Industries Ltd

5.64. Cannon Industries Ltd (Cannon) is a wholly-owned subsidiary of the General Electric Company Ltd and was acquired by the latter in 1964. It is the only company within the Group producing reference goods and it manufactures both cookers (freestanding and built-in) and fires at premises in Bilston. Sales of reference goods in the United Kingdom in 1977-78 at £10.6 million represented

over three-quarters of Cannon's sales in that year but only 0.5 per cent of total GEC Group turnover: the remainder of Cannon's sales were mainly chemical plant equipment, LPG appliances and spare parts.

Combined sales, profits and capital employed of Valor Newhome and Valor Heating (see page 43)

	Year ended 31 March					
	1974	1975	1976	1977	1978	1979
	£'000	£'000	£'000	£'000	£'000	£'000
<i>Sales</i>						
Reference goods	5,657	6,399	9,695	8,881	13,119	17,154
Other products	9,525	8,067	6,678	10,000	11,683	11,803
Total sales	15,182	14,466	16,373	18,881	24,802	28,957
<i>Profit—before interest and tax</i>						
	2,060	300	162	333	1,107	2,203
<i>Capital employed</i>						
	6,524	7,070	7,484	7,144	6,929	7,146
Return on sales	13.6%	2.1%	1.0%	1.8%	4.5%	7.0%
Return on capital employed (historic cost)	31.6%	4.2%	2.2%	4.7%	16.0%	28.3%

5.65. Cannon's share of the United Kingdom cooker market has remained fairly static in the three years to 31 March 1979 at about 13 per cent by value and 9 per cent by number—rather similar to 1972–73 and a noticeable recovery from the three rather poor years from 1973–74 to 1975–76. Space heater sales also declined sharply in 1973–74 but, in contrast to cookers, did not recover and have, in fact, declined further in the last three years: in 1978–79 Cannon's share of this market was about 6 per cent by value (5 per cent by number).

5.66. Cannon appliances tend to be priced in the middle to upper ranges. Some 97 per cent of Cannon cookers and 84 per cent of its space heaters were, in 1977–78, sold to BGC. Only one Cannon space heater was designated a Superflame model. The company said that it had always been willing to sell to independent retailers but production constraints (now overcome) had meant that the independent sector had been starved of Cannon products.

5.67. Fixed capital investment in the three years to 31 March 1977 on reference goods has averaged £394,000 per annum—5.4 per cent of sales of these goods in the period.

5.68. The company undertakes its own market research—both in-house and (to a lesser extent) through independent market research organisations.

5.69. In the three years to 31 March 1977 expenditure on design and development by the company has averaged £112,000 per annum—about 1.5 per cent of sales.

5.70. Cannon's advertising costs in the three years to end March 1977 increased by 86 per cent to a total of £102,000 (1.4 per cent of sales): over 40 per cent of this was spent on space heater advertising.

5.71. Exports of Cannon cookers reached some 6½ per cent of the value of the company's cooker sales in the three years ended 31 March 1977, but declined (both in value terms and as a percentage of Cannon's sales) in the two succeeding years. Space heater exports have been small—not exceeding about 1 per cent in any of the last five years.

5.72. Cannon is a member of the SBGI and of the GSMP and members of the company have attended the meetings and have taken part in the discussions of these organisations (Chapter 6).

5.73. Sales, capital employed and profits of Cannon Industries Ltd for the five years to 31 March 1979 are set out below.

Year to 31 March	Total sales £'000	Average capital employed (historic) £'000	Profit before tax		
			% of sales		% of capital employed
			£'000		
1975	8,513	3,595	182	2.1	5.1
1976	10,909	4,167	553	5.1	13.3
1977	12,389	4,922	863	7.0	17.5
1978	13,757	5,814	866	6.3	14.9
1979	17,038	6,431	1,405	8.2	21.8

The figures include the manufacture and sale of chemical plant equipment and some electrical appliances but as these only represent some 7 per cent of total turnover it would seem reasonable to consider that the profits of the business as a whole reflect within a reasonable margin the return from reference activities only (including conversion units and spares).

United Gas Industries Ltd.

5.74. Two companies within the United Gas Industries Ltd (UGI) Group manufacture reference products: Robinson Willey Ltd (RW) and Berry Magicoal Ltd (BM). Sales in the United Kingdom of reference products by the two subsidiaries in 1977–78 at £8.2 million were 20 per cent of total Group sales. Much of the remaining Group turnover is in respect of goods (meters, controls, etc) connected with the gas industry. RW, operating from Liverpool, manufactures only gas fires and wall heaters together with spare parts: in earlier years gas conversion units and some water heaters were made and recently it has started the manufacture of central heating boilers. BM, operating from several locations until 1975 when it was rationalised at Birmingham, manufactures electrical products as well as gas fires: the former were predominant in the early 1970s (96 per cent of BM sales in 1973–74), but gas fire production has since formed a larger share of BM output and electrical goods had fallen to 68 per cent of total sales in 1976–77 (though they recovered to 75 per cent in 1978–79). Of the total value of gas space heaters sold by UGI in 1977–78, RW supplied about 87 per cent. Gas wall heaters have formed a growing proportion of RW's sales—18 per cent in 1973–74 (17 per cent of UGI sales) increasing to 25 per cent in 1977–78 (22 per cent of UGI sales).

5.75. UGI's share of the United Kingdom market for space heaters in 1977-78 was about 25 per cent by number and 24 per cent by value—a little lower than in the two previous years. In 1978-79 it fell again slightly—to 24 per cent both by number and value. We have decided not to treat UGI as a scale monopolist for the reasons set out in paragraph 13.5.

5.76. RW products are available to the independent retail sector and no RW product has been the subject of a Superflame agreement. BM models, however, have been available only to BGC. In all, about 90 per cent of UGI sales of space heaters were made through BGC in 1977-78—a higher proportion than in any of the previous four years.

5.77. We were told by RW that it is its policy to supply only BGC with the initial production of a new model. This, the company says, is because it takes time to build up to full production levels and also because it is necessary to supply BGC first in order to ensure the maximum exposure and promotion of its products. Thus sales to the private sector are not started until BGC Regions are fully stocked: this can mean the independent sector waiting up to 12 months for supplies.

5.78. Neither RW nor BM has undertaken any major fixed capital expenditure in the five years to 31 March 1978: UGI says that, in large measure, this arises from the fact that both operations are substantially those of assembly. Average expenditure on tooling in the five years to 31 March 1978 has been £62,000 per annum.

5.79. UGI conducts market research both in its own right and jointly with BGC.

5.80. Both RW and BM are continuously updating and re-designing gas fires. In 1975 RW introduced its own design of natural draught wall heater (prior to this all such heaters were imported from the Continent). Expenditure on design and development in the five years to 31 March 1978 by RW has averaged £154,000 per annum and it is estimated that the expenditure on R & D applicable to gas fires in BM has averaged £24,000 per annum. In total this is 2.9 per cent of sales in the five years.

5.81. Both UGI companies, independently, promote their goods both by direct advertising and by support to BGC promotions. The amounts spent on these activities have been:

	1973-74	1974-75	1975-76	1976-77	1977-78
	£'000	£'000	£'000	£'000	£'000
A Robinson Willey	104	110	135	128	186
Percentage of sales of reference goods	2.6	2.6	2.5	2.0	2.6
B Berry Magicoal*	20	15	27	29	62
Percentage of sales of reference goods	9.9	5.2	3.0	2.4	5.4

* estimated gas fires only.

5.82. RW exports of space heaters (BM does not export gas fires and RW exports are mainly of wall heaters) were fairly consistently between about 3 and 4 per cent of sales in the five years to 31 March 1978: in 1978-79, however, the value of exports fell to less than 2 per cent.

5.83. Both RW and BM are members of the SBGI and of the GSMP and representatives of the companies have attended the meetings and have taken part in the discussions of these organisations: the company has stated, however, that it is its intention not to attend any further meetings of the GSMP should any be held.

5.84. Like other manufacturers RW, after pressure by the BGC and after discussion in the SBGI (paragraph 6.5 (a)), increased the differentials between the prices it charged for appliances sold to BGC and the prices for similar appliances sold to other retailers.

5.85. A number of other policies and practices have been the subject of discussion between representatives of the two UGI companies and other gas appliance manufacturers in the SBGI and GSMP. These are dealt with in Chapters 6, 10 and 12.

5.86. The trading results of Robinson Willey Ltd and Berry Magicoal Ltd for the six years to 31 March 1979 are set out at Appendices M 1 and M 2. Sales, profits and capital employed of Robinson Willey Ltd were as follows:

	<i>Year to 31 March</i>					
	<i>1974</i>	<i>1975</i>	<i>1976</i>	<i>1977</i>	<i>1978</i>	<i>1979</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<i>Sales</i>	5,088	5,459	6,362	7,170	7,798	9,994
<i>Profit before interest and tax</i>	200	191	202	300	551	643
<i>Capital employed (historic cost)</i>	1,695	1,695	1,599	1,647	1,885	2,174
<i>Return on sales</i>	3.9%	3.5%	3.2%	4.2%	7.1%	6.4%
<i>Return on capital employed</i>	11.8%	11.3%	12.6%	18.2%	29.2%	29.6%

The Group does not allocate costs between products beyond direct materials and labour. However, although conversion units and spares make a higher contribution as a percentage of selling price, the turnover of those products is relatively small and it seems likely that the above percentages broadly reflect the profit margins on fires and heaters. Robinson Willey's return on capital employed was below that of the non-electrical industry (17 per cent) and manufacturing industry generally (16 per cent) during the three years to 31 March 1976, but has improved substantially since then.

5.87. Sales, profits and capital employed by Berry Magicoal Ltd, which include substantial non-reference trading, for the six years to 31 March 1979 were as follows:

	Year to 31 March					
	1974	1975	1976	1977	1978	1979
	£'000	£'000	£'000	£'000	£'000	£'000
<i>Sales</i>	6,172	3,868	3,316	4,090	5,033	6,182
<i>Profit [Loss] before interest and tax</i>	111	[280]	[153]	160	498	440
<i>Capital employed (historic cost)</i>	1,953	1,931	1,584	1,403	1,394	1,542
<i>Return on sales</i>	1.8%	[7.2]%	[4.6]%	3.9%	9.9%	7.1%
<i>Return on capital employed</i>	5.7%	[14.5]%	[9.6]%	11.4%	35.7%	28.5%

5.88. The deterioration in BM's trading results in 1974-75 and the following year was due to a substantial drop in sales of electric storage heaters and, to a lesser extent, electric fires following a 30 per cent rise in the cost of electricity and changes in the 'off peak' tariff in the third quarter of 1974. As a result the company ceased to manufacture electric storage heaters, closed down its Huyton factory as a manufacturing unit in October 1974 and transferred production of other types of product to its Birmingham factory but continued to use the Huyton premises as a warehouse and distribution centre. The deterioration in trading would therefore appear to be due to the reduction in volume products.

5.89. As stated previously, the group only allocates prime costs between products to ascertain the gross contribution towards overheads and the company considers it would be difficult to make any meaningful allocation of these other costs and capital employed between reference and non-reference products because many facilities and services are shared. However, management accounts indicate that, in relationship to turnover, Magicoal electric fires are more profitable than Magicoal gas fires which in turn are marginally more profitable than those of Robinson Willey.

The Carron Company

5.90. The Carron Company (Appliance Division) (Carron) is the only company in the Carron Group manufacturing reference goods and the only reference goods it manufactures are cookers (both built-in and freestanding). The Group's other, non-reference, products include stainless steel sinks, steel and plastic goods, and bathroom furniture, radiators and foundry products. In 1977-78 sales of reference goods at £3.1 million were about 14 per cent of total Group's sales. Production is centred in Falkirk and Carron cookers are at the upper end of the market.

5.91. Carron has accounted for between 2 and 3 per cent by number (4 to 7 per cent by value) of the United Kingdom cooker market in each of the four years to 31 March 1979: this is about twice its estimated share in the preceding three years. In 1978, 90 per cent of Carron sales were through BGC. No cookers have been exported in the seven years to 31 March 1979.

5.92. Fixed capital investment relating to reference goods in the three years to 31 December 1977 is estimated to have been £313,000 (about 3.2 per cent of sales of reference goods in this period). Design and development in the same period has totalled £167,500 (1.7 per cent of sales). Advertising expenditure in the period has totalled £140,000 (1.4 per cent of sales). The company does not undertake any significant market research.

5.93. Carron is a member of the SBGI and of the GSMP and representatives of the company have attended meetings of both organisations.

5.94. The manufacture and sale of reference goods by Carron does not represent a significant part of the company's activities. From the limited financial information obtained, it appears that reference products were among the less profitable activities of the company and that the return on capital employed on an historic costs basis was generally below that for the non-electrical engineering industry (17 per cent) and manufacturing industry as a whole (16 per cent).

Richard Baxendale and Sons Ltd

5.95. Richard Baxendale and Sons Ltd (Baxi) is principally involved in the manufacture of gas central heating appliances (77 per cent of company turnover in the year to 2 April 1977), and of solid fuel appliances (8 per cent). The only reference products manufactured (at Preston) are gas space heaters which represent about 4 per cent of turnover: both fires and wall heaters are made, the latter being much the more important to the company (three-quarters of the value of reference goods sales in 1978-79).

5.96. Baxi's sales, and its share of the United Kingdom market for gas space heaters, have expanded appreciably in each of the last five years: from an insignificant 0.2 per cent in 1973-74 (0.6 per cent by value) Baxi's share had grown to about 7 per cent (6 per cent by value) in 1977-78 and further expanded to 9 per cent (7 per cent by value) in 1978-79. Ninety-six per cent of Baxi gas space heater sales, in 1977-78, were sold through BGC. Exports are small (0.7 per cent of sales in 1977-78).

5.97. Capital expenditure on gas space heater production (about 4 per cent of all such expenditure by Baxi) is estimated at £51,000 in the three years to 31 March 1977 (2.2 per cent of sales in those years). Design and development is estimated to have totalled £25,000 in the same three years (1.1 per cent of sales). There was no advertising in 1974-75 or 1975-76 but £17,000 was spent in 1976-77. The company conducts its own market research.

5.98. Baxi is a member of the SBGI and of the GSMP and its representatives have attended meetings of both organisations.

5.99. The manufacture and sale of reference goods by Baxi does not represent a significant part of the company's activities. From the limited financial information obtained, it appears that reference products were among the less profitable activities of the company and that the return on capital employed on an historic costs basis was generally below that for the non-electrical engineering industry (17 per cent) and manufacturing industry as a whole (16 per cent).

Economic Gas Appliances Ltd

5.100. Economic Gas Appliances Ltd (Economic) is a subsidiary of Braby Leslie Ltd and is the only company within that Group manufacturing gas appliances. It manufactures only gas fires at its Burnley factory.

5.101. In the two financial years ended 31 March 1979 Economic had a 3½ to 4 per cent share of the United Kingdom market for gas space heaters—a little higher than in the preceding five years. About two-thirds of Economic gas fires were sold through BGC in 1977–78: there have been no exports.

5.102. Fixed capital investment and design and development have been small in the three years to 31 March 1977. Advertising expenditure has totalled £45,000 (2 per cent of sales) in the period. There is no market research.

5.103. Economic is a member of the SBGI and of the GSMP and its representatives have attended meetings of both organisations.

5.104. Sales, capital employed and profits of Economic Gas Appliances Ltd, which relate solely to gas fires and spares, were as follows:

Year to 31 March	Sales £'000	Average capital employed £'000	Profit [Loss] before interest and tax	
			% of sales	% of capital employed
1975	694	228		
1976	885	262		
1977	954	310		
1978	1,442	323		
1979	1,733	377		

[Details omitted.
See note on page iv.]

The high return in 1977–78 was largely due to temporary employment subsidies without which the return on capital employed would have been reduced to per cent. [Figure omitted. See note on page iv.]

W H Dean & Son Ltd

5.105. W H Dean & Son Ltd (Dean) is a wholly-owned subsidiary of Burco Dean Ltd and manufactures at Burnley domestic and commercial gas appliances together with some other products, under the brand name Eastham Maxol. The only product manufactured by the company at the time of the reference which falls within its terms is a wall heater: recently, however (in February 1980), the company introduced a built-in gas oven.

5.106. Dean's share of the space heater market was just over one-half of one per cent by number in the year to 30 September 1977 (just under 1 per cent by value), a share which it has maintained approximately since 1973; in the year to 30 September 1978 the company's share of the market increased to 1½ per cent (approaching 2 per cent by value). About two-thirds of sales are through BGC. The company has a very small export trade conducted through an independent exporting company.

5.107. Fixed capital investment on space heaters is small. Dean does not conduct its own design and development but relies on its parent company. It does not undertake significant market research and only nominal amounts are spent on joint advertising promotions with its customers.

5.108. Dean is a member of the SBGI and its representatives have attended SBGI meetings. But we are told that, apart from a short period of time, it has not been a member of the GSMP.

5.109. The manufacture and sale of reference goods by Dean does not represent a significant part of the company's activities. From the limited financial information obtained, it appears that reference products were among the less profitable activities of the company and that the return on capital employed on an historic cost basis was generally below that for the non-electrical engineering industry (17 per cent) and manufacturing industry as a whole (16 per cent).

The importers

5.110. Imports of reference goods are small except for water heaters. The proportions of imported goods in the total supplied to the United Kingdom market in 1977-78 were approximately: cookers, 2 per cent (both by number and by value); space heaters 3 per cent (both by number and value); water heaters 32 per cent by number (27 per cent by value). Imports of all three types of appliance increased in 1978-79—those of space heaters more than doubling but still forming only 5 per cent of the market (both by number and by value), those of water heaters increasing by more than half to 42 per cent by number of the market (36 per cent by value). It is thought that the substantial majority of the cookers imported are split-level appliances.

5.111. The only reference goods imported in substantial quantities are Chaffoteaux water heaters (paragraphs 5.112 to 5.124). Other imported reference goods include those of the following manufacturers:

<i>Company</i>	<i>Country of origin</i>	<i>Total value of imports 1977-78</i>
<i>Cookers</i>		
		<i>£'000</i>
AEG Telefunken	West Germany	} 1,188
ATAG	Netherlands	
Balay	Spain	
De Dietrich	West Germany	
Neff	West Germany	
Miele	West Germany	
Prowoda	France	
Sauter*	France	
Scholtes	France	
Smeg	Italy	

* not selling in 1977-78

<i>Company</i>	<i>Company of origin</i>	<i>Total value of imports 1977-78</i>
<i>Space heaters</i>		
Benraad	Netherlands	} 905
Drugasar	Netherlands	
Vulcana	Netherlands	
Prometheus	West Germany	
<i>Water heaters</i>		
Prometheus	West Germany	} 60
Saunier Duval	France	
Vaillant	West Germany	

* not selling in 1977-78.

Chaffoteaux Ltd

5.112. Chaffoteaux Ltd (Chaffoteaux) is a subsidiary of Chaffoteaux et Maury, a company registered in France which manufactures gas and electric water heaters and gas central heating boilers.

5.113. Chaffoteaux et Maury's production unit is a modern factory built and equipped in the late 1960s. It produces some 550,000 gas water heaters a year of which 350,000 are sink heaters. The company exports 50 per cent of its production—its main markets being Germany, Belgium, Spain, Italy, Algeria, the Middle East, Japan, Australia and the United Kingdom. Over 70 per cent of the French company's production is of gas instantaneous water heaters. Chaffoteaux was established in the United Kingdom in 1970 when it started to sell water heaters to BGC during the period of North Sea gas conversion programme: it was able to provide the Corporation, during a period when British models were in short supply, with heaters which would replace town gas models with no, or little, alteration to existing pipes or flues. It now sells instantaneous water heaters (one sink heater and one multipoint heater), gas heater shower units and gas central heating boilers: its water heaters are the only foreign reference goods to achieve a substantial proportion of the British market. All appliances are imported from the French parent company, but in 1977 a small unit was established at Redhill to manufacture balanced flue sets (a comparatively simple, mainly assembly, process) for use with some of the imported goods. The Redhill unit manufactures all balanced flue sets for the Group (the balanced flue system is not popular on the Continent), exporting a proportion of its production.

5.114. The value of Chaffoteaux's total sales in 1977 was 6.6 per cent of the total sales of its parent company and sales of reference goods (including exports) forms about 80 per cent of the British company's total sales (falling to 67 per cent in 1978 with the growth of non-reference goods sales).

5.115. Chaffoteaux accounted (by number) for over 30 per cent of sales in the United Kingdom of instantaneous water heaters in 1977-78—a figure that increased to 41 per cent in 1978-79 (a year in which British water heater manufacturers had problems in changing their products to bring them into line with the new EEC standards): by value Chaffoteaux' share in the two years was just over 26 per cent and 35 per cent respectively. It is therefore a scale monopolist. These shares represent a substantial growth from the levels (about 10 per cent) attained in 1972-73 and 1973-74.

5.116. Chaffoteaux sells through the BGC (which takes about 80–85 per cent of its sales) and also to builders' merchants, other retailers and its own appointed stockists (through whom the company tries to encourage the placing of small orders).

5.117. No material fixed capital investment was undertaken in 1973 or 1974 by Chaffoteaux—the company was solely a distributor in its early years in Britain. However, the establishment of the balanced flue manufacturing unit involved the expenditure of about £248,000 capital assets in the years 1975 to 1977: about 50 per cent of this sum relates to water heaters.

5.118. The company states that it accords no priority to any particular customer and all orders are processed strictly according to the date of their receipt.

5.119. A certain amount of market research is carried out by Chaffoteaux independently of BGC but the Corporation is the main influence on design of models sold by the company.

5.120. Chaffoteaux employs a small design staff at Redhill which operates as an extension of the parent company's operations to design models suitable for the British market. Design and development costs incurred in Britain alone in the five years to 31 December 1977 have averaged about 1 per cent of reference goods sales.

5.121. Advertising is conducted independently and is directed only to the trade. Total expenditure in the five years to 31 December 1977 averaged about 2.1 per cent of sales.

5.122. Although Chaffoteaux does not export water heaters, it does export some balanced flue units: these exports amounted to about 2 per cent of sales in 1977 and 1978.

5.123. Chaffoteaux became an associate member of Section 9 (water heaters) of the SBGI in 1974 and a full member in 1978 and its representatives attend Society meetings: it has never been a member of the GSMP.

5.124. Sales profits and capital employed of Chaffoteaux Ltd for the five years to 31 December 1978 are tabulated below:

	<i>Year to 31 December</i>				
	<i>1974</i>	<i>1975</i>	<i>1976</i>	<i>1977</i>	<i>1978</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Sales	852	897	1,668	2,625	4,935
Profit [Loss] before interest and tax	55	[175]	[175]	15	176
Capital employed—historic	180	189	85	506	1,126
Return on sales	6.5%	[19.5]%	[10.5]%	0.6%	3.6%
Return on capital employed	30.5%	[92.6]%	[205.9]%	3.0%	15.6%

The figures reflect the company's position as principally a selling agency. The results indicate the initial cost of penetrating the market but the company is now considered to be established as a viable proposition for the sale of water heaters in the United Kingdom.

Inter-relationships between Manufacturers

The Society of British Gas Industries (SBGI)

6.1. The Society was founded in 1905 by manufacturers and contractors in the gas industry. Its functions include most of those common to a manufacturers' trade association—substantially those of protecting the interests of its members (eg in their relations with Government Departments), of disseminating information (eg on statistics and standards), of co-operating with other bodies having similar or allied interests (including such bodies as CORGI, the BSI, etc) and of providing a forum for discussion among manufacturers and between manufacturers and the BGC. The SBGI is also represented on various international bodies concerned with gas and gas appliances (eg the Comité Européene des Fabricants D'Appareils de Chauffage et de Cuisine Domestiques—a European Association of cooker and fire manufacturers): and through its European Committee (which was formed to ensure co-ordination within the Society, with the Government and with other interested associations) it plays an active role in matters involving the EEC.

6.2. Members of the Society are grouped into Sections according to their particular manufacturing or service interests. Some members will belong to more than one Section because their interests extend into two or three appliance groups. Section Chairmen, together with certain elective members, the Society's Chairman, Vice-Chairman and Secretary/Treasurer, comprise the Council of the Society.

6.3. All British manufacturers of reference goods, and also Chaffoteaux, belong to the Society and are members, as appropriate, of Section 6 (Cooking Appliances), Section 9 (Water Heaters and Home Laundry Equipment) and Section 10 (Domestic Space Heating Appliances) according to the class or classes of goods they manufacture. A Domestic Appliance Board (DAB) co-ordinates the activities of the Sections involved with domestic gas appliances.

6.4. In addition to the foregoing committee structure which includes only SBGI members (that is, manufacturers and contractors), there are also joint committees of SBGI members or officers and BGC representatives. These committees are: the Joint Marketing Committee; Joint Consultative Committees (there are ten of these dealing with different product groups); and the Joint Liaison Committee (established early in 1976) which co-ordinates the work of the Joint Consultative Committees.

6.5. The SBGI—either in its own committees or in joint committees with the BGC—has been the forum for the discussion of a number of issues of interest to the inquiry:

- (a) In 1972, following a report instituted by the Gas Council on the growth in the share of the market held by independent retailers, the BGC sought to increase the differentials between prices charged to it by manufacturers for reference goods and the prices charged to independent retailers for corresponding goods. The BGC proposal was discussed during 1972 and 1973 at considerable length in the two Sections mainly concerned (cookers and space heaters) and in the DAB. The cooker manufacturers (Section 6) were prepared to offer a minimum differential of $12\frac{1}{2}$ per cent less $2\frac{1}{2}$ per cent for prompt payment (CMA). Space heater manufacturers were prepared to negotiate a minimum differential in respect of appliances on the 'A' list. Working arrangements and guidelines between BGC and manufacturers were agreed, and a joint SBGI/BGC working party was set up to discuss policies in relation to independent retailing including, specifically, the tasks of reviewing the revised price quotations that manufacturers were to be invited to make in the light of the guidelines mutually agreed, and of ensuring proper supervision of those guidelines. In the event, although some collective understanding or agreement had been reached on the proposals to be considered concerning minimum differentials, it appears, on the evidence we have received, that the increases ultimately achieved by BGC were arrived at in discussion individually with manufacturers.
- (b) Joint committees between SBGI and the BGC have been used as the fora in which agreement has been reached, or discussion has taken place, on the introduction and terms of the sales listing scheme (see paragraph 3.5) and its associated testing procedures and methods of approval and on the terms to be included in Superflame contracts.
- (c) In 1975 BGC sought an extension to six weeks of the four week period of notice of forthcoming price increases given to it by manufacturers. Although the BGC initially took up the matter individually with each manufacturer, the SBGI felt that this was a matter best dealt with collectively by it on behalf of members and so informed BGC. The matter was discussed in the cooker and space heater Sections and it was agreed to resist the change: BGC were so informed. In practice most manufacturers now give six weeks notice though some (eg Chaffoteaux) do not.
- (d) There is an understanding between most manufacturers of reference goods that the SBGI Secretariat should be advised of prices to be charged to BGC for new models, and of changes in prices to BGC of other models, as soon as such prices have been notified to BGC: this information is then circulated by the Secretariat to the other members of the relevant Sections.
- (e) Joint committees of the SBGI and BGC have been the fora for the consideration of views on future marketing policies and issues of concern jointly to manufacturers and their chief customer.
- (f) Sections of the SBGI have been the fora in which manufacturers' collective policies regarding joint promotions with the BGC (eg on individual appliance campaigns, general advertising campaigns, on the advantages of gas as a fuel, the Ideal Homes Exhibition) have been determined, and in which manufacturers have been able to identify and discuss other matters of common concern and, where appropriate, to formulate a joint approach to BGC through the appropriate Joint Committee.

(g) Members have exchanged views on discussions with large retailers and with the British Independent Gas Appliance Retailers' Federation.

6.6. The opportunity of SBGI meetings is also taken from time to time to exchange opinions, informally and outside the recorded meetings of the Society, among the senior personnel of member companies on movements in prices and other likely developments affecting the industry. In particular, during the existence of the Price Commission, discussions took place at which member companies exchanged information in broad terms about price applications to be put to that Commission.

Gas Stove Makers' Panel (GSMP)

6.7. This organisation has been in existence for many years and nearly all United Kingdom manufacturers of gas cookers and space heaters belong to it (though not all have attended regularly): we understand that, although it has not met since July 1978, it has not been formally wound up. The Panel met approximately every month and manufacturers were represented on it generally by senior sales or marketing officers at about the level of Sales or Marketing Director or Manager (the level of representation, we were told, had tended to decline in recent years). One of its functions was the mutual exchange of information between members about the forthcoming introduction of new models, the prices to be charged for them and price increases proposed to be made. The understanding between Panel members was that information on new appliances (including the proposed price to BGC) should be submitted to it no later than the first GSMP meeting following technical approval by the BGC.

6.8. Another role of the GSMP was to provide a forum for the exchange of information and views about promotional campaigns by BGC Regions or in smaller localities or at individual exhibitions. Agreements were frequently reached between companies on the line to be taken in respect of these campaigns and on the pattern of discounts to be offered in connection with them.

6.9. The GSMP was also used as a forum for the exchange of views on the entry of the Co-operative Wholesale Society into the merchandising of gas appliances for sale by retail Societies.

6.10. As with the SBGI, the opportunity of GSMP meetings was taken from time to time for the exchange of opinions about movements in prices and other likely developments affecting the industry: these exchanges have included information about price applications to be put to the Price Commission.

Other fora

6.11. Senior managers in some companies, from time to time, meet their opposite number in competing companies for discussions on various matters including the general problems of the industry, economic conditions and the market outlook, within and affecting the industry and in general terms, on price movements.

CHAPTER 7

Comments on and Complaints about the situation in the Gas Appliance Industry

7.1. Views on the situation in the gas appliance manufacturing and retailing industry were sought specifically from a number of bodies which had an obvious connection with it, and a general invitation was published seeking the comments of individuals or other bodies which felt that they could make a contribution to the inquiry. A number of criticisms and complaints was received: some of these are mentioned in the evidence received from specific institutions or companies (Chapter 8) and others are summarised in the following paragraphs.

Complaints about the non-availability of certain appliances

7.2. A number of complaints was received from independent retailers and trade associations about exclusive rights to Superflame appliances and it was suggested that BGC should not have exclusive access to any manufacturer's best products. Apart from Superflame there were complaints that certain manufacturers supplied only BGC and would not deal with the independent retailers. In addition to the foregoing there were also complaints about difficulties in obtaining other models and about the unpredictability of their delivery (in some cases delivery dates are reported to have been so remote as to be tantamount to refusal to supply). Several retailers reported that these factors taken together had led to the loss of appreciable proportions of their markets and some commented that the situation had forced them into selling electrical appliances or foreign-made gas appliances in order to survive. A trade association expressed its belief that manufacturers had reluctantly been forced into their position *vis-à-vis* independent retailers by pressure brought on them—consciously or unconsciously—by BGC. The same trade association went on to suggest that it could not be in the interests of the consumer to be denied the opportunity of buying in a free market and that he could, as a result of this denial, be paying an excessive price for appliances. Several retailers have reported that the position started to become rather less difficult towards the end of 1977 or subsequently (this applies also to the complaints reflected in paragraphs 7.4 and 7.7), although others did not agree with this.

Complaints about the differentials between manufacturers' prices to BGC and to other retailers or wholesalers

7.3. A number of independent retailers and trade associations complained about the differentials between manufacturers' prices to BGC and those to the private sector and the extent to which these differentials had increased. Several retailers were willing to concede that some differential was justified because of the size of deliveries taken by BGC, but all thought the differentials too large. Several retailers and trade associations maintained (and some provided figures to show) that differentials were of such a level as to allow them to purchase more

cheaply from BGC (at wholesale terms—paragraphs 3.19–3.20) than from the manufacturers. A trade association contrasted the terms available for certain other appliances where manufacturers were prepared to offer best terms for deliveries of 10 or 15 units whereas the same manufacturers maintained that deliveries of larger numbers of gas cookers were not really economical. Another trade association maintained that costs had nothing to do with the terms offered by reference goods manufacturers: the important factor was BGC pressure on them.

Complaints about discrimination in delivery priority

7.4. Where models were produced for sale both to the independent sector and to the BGC, a number of complaints has been received from independent retailers about (a) the denial to the independents of new models until BGC had been completely stocked (it is said that this might be up to a year from the model's introduction and effectively gave BGC a monopoly for that period) and (b) manufacturers' practice of affording BGC priority in the delivery of other models even though independents had long standing orders for those models.

Complaints about the subsidisation of appliance sales and installation/servicing from gas sales

7.5. Comments were received from installers and trade associations about the low hourly charges for BGC service and installation work compared with the private sector and Electricity Boards: these charges were said to be un-economic and to inhibit the establishment and development of private contractors. Mention was also made of BGC's extensive advertising and of the overheads incurred by its showrooms, and the fact that the Corporation has in several years made a loss on its appliance sales. It was suggested that both appliance sales and installation/servicing were subsidised out of profits made on the sale of gas (attention was drawn to the Price Commission's 1977 Report on Call-out Charges which reached this conclusion in respect of repair work).

Denigration of the independent

7.6. One gas appliance retailer, installer and service contractor (a CORGI member) complained that local BGC showroom and service staff criticised his company and denigrated it to his customers.

Manufacturers' compliance with BGC

7.7. Several retailers reported conversations they had had with manufacturers who had explained the difficulties—particularly in certain BGC Regions—of being seen to support the independent retailer because of possible reactions from BGC (such reactions, according to these reports, could lead to appliances being relegated from Regions' A to B lists). One retailer said he had been asked to 'play it low key'. Other retailers suggested that the style of gas cookers and other gas appliances was dominated by BGC (as the largest customer) and that development was being affected by restrictions placed upon manufacturers by the Corporation. A trade association commented that, in its view, the fact that one

customer conducts the majority of selling and marketing of a line of goods must mean that the manufacturer relaxes his efforts slightly: it also thought that the Corporation's influence could well have led to a diminution of manufacturers' research and development efforts.

Availability of spare parts to the private sector

7.8. A number of complaints were received about the problems of obtaining spare parts. These were directed at (a) the BGC which will not supply the private sector with spare parts from its depots (unless a repair job is sub-contracted or unless the appliance is under guarantee and was obtained by the retailer or installer from BGC originally) and (b) manufacturers whose spare parts service was not efficient (though some recent reports have indicated an improvement).

Servicing

7.9. The Consumers' Association found that most consumers were satisfied with the standard of service they received in BGC showrooms and most were satisfied—though with a significant minority dissatisfied—with the standard of after-sales service. The Association did comment, however, that whilst in its opinion the Corporation's monopoly was unlikely to have operated to reduce the level of service offered to customers, neither was it being used to ensure that they received the full potential benefits of such a situation.

Faults and reliability

7.10. The Consumers' Association found (in a survey in 1976) that gas cookers were amongst those appliances most likely to have faults on delivery (about one in three gas cookers compared with one in four electric cookers and one in seven of all appliances tested). The survey also found that, measured by the number of appliances developing faults during the first $2\frac{1}{2}$ years of service, gas cookers were less reliable than electric cookers and the majority of electrical domestic appliances.

7.11. Comments were received from an independent retailer on the effects of the increasing complexity of cookers which had an adverse effect on reliability (out of 26 Sales listed gas cookers in September 1979, 18 required also a mains electrical supply). We were several times told of the need for cheap uncomplicated cookers without expensive marketing features such as automatic ignition.

Excessive trade-in terms

7.12. Complaints were received from independent retailers and a trade association about high trade-in terms offered by BGC (for example trade-in allowances of £35 have recently been offered by some BGC Regions on multi-point water heaters and allowances of £25 to £35 on gas fires).

Special offers

7.13. Complaints from independent retailers dealt with the substantial price reductions made by BGC during its promotional periods. During these periods retailers report that they have sometimes found BGC's retail prices to the consumer to be lower than manufacturers' prices to them. Examples were given of reductions of nearly 20 per cent from BGC's normal retail price.

CHAPTER 8

Evidence provided by Interested Parties

8.1. The Commission sought the views of any person, company or trade association interested in the reference products and a number of hearings and meetings were held with those who responded. Summarised below are their views on matters relevant to the inquiry.

SBGI

8.2. The Society told us that its members, generally, were not attracted to the Superflame system of special models exclusive to a single customer which was largely a marketing tactic imposed on manufacturers by the BGC: further they felt that the idea had not worked. In the Society's judgment manufacturers would prefer to make their models available to any distributor who chose to buy them—provided always that they could undertake that they would be safely installed: but the dominant position of the BGC and the pressure (such as exclusivity through Superflame branding) that the Corporation had been in a position to exercise had inhibited them.

8.3. The Society maintained that no formal agreements had been made within the SBGI on subjects such as the differentials between prices to BGC and to other retailers, discounts for the promotional activities of BGC and the period of notice of intended price changes to be given to BGC. Although it is accepted that discussions on the principles of some or all of these subjects and the general line of approach to them took place both within formal meetings and informally outside such meetings, the SBGI maintains that it stresses to members that each must make his own decision on the matter.

8.4. Commenting on the United Kingdom Gas Appliance Advisory Service (UKGAAS), the Society felt that—although supported by contributions from manufacturers—the service to date had provided no assistance to exporters that could not already be obtained elsewhere.

The Confederation of British Industry (CBI)

8.5. The CBI did not wish to comment on the reference.

The British Independent Gas Appliance Retailers Federation (BIGAR)

8.6. BIGAR told us that pressure had been put on independent retailers in a number of ways by the BGC—mainly through the latter's influence on the manufacturers. In part this had been done by persuading manufacturers to increase—since the early 1970s—the differentials between prices to BGC and prices to others: the Federation accepted that some differential was justified by virtue of the large orders placed by the Corporation, the regular and forecast

flow of orders, the BGC's promotional activities, etc, but it was maintained that the difference in price had gone beyond what it was reasonable to allow for such factors. One of the effects of the differentials was that it was sometimes cheaper to buy appliances from BGC at trade prices (in those Regions which would sell in this way) rather than direct from manufacturers. Another effect was that on the occasions of BGC sales campaigns and special offers, the general public could buy appliances from showrooms at prices less than those charged by manufacturers to independents. Because of the influence of the BGC it was suggested that manufacturers were reluctant to supply the independent retailer—some refusing to supply, others resorting to a variety of stratagems and excuses to avoid or delay deliveries: on one occasion, even where a substantial order was in prospect from a group of independents, there was a distinct lack of interest by the manufacturers. It was general, the Federation told us, to find that priority of supply was given to BGC.

8.7. It was suggested that BGC installation and service charges were below an economical level and these were subsidised by profits made elsewhere in the Corporation. Likewise it was pointed out that the Corporation's appliance sales account was not profitable and it was suggested that it would be even less so if showroom and other selling costs were realistically assessed.

The Builders' Merchants Federation (BMF)

8.8. The BMF told us that some 95 per cent of builders' merchants in the United Kingdom are members of the Federation. The 900 members control some 2,200 outlets with a total annual turnover of some £2,500 million. Some builders' merchants sell reference products, but not all sell each type of product or the full range of goods available to the independent sector. Some builders' merchants, as well as providing a service to the public, to the installer and to the building contractor also sell appliances (at trade terms) to other retailers.

8.9. The BMF told us that since the mid-1960s to early-1970s its members' share of the United Kingdom market for reference goods has fallen substantially and it attributed this fall to the sales practices of (initially) the local Gas Boards and (latterly) BGC which have obliged the Federation's members to withdraw progressively from the sale of reference goods. Specific aspects of the BGC's policies which were criticised were: unrealistically high trade-in prices; the Superflame and sales listing policies which have resulted in a reduction in the number of models available to builders' merchants and their limitations to less attractive or technically advanced models; pressure on manufacturers resulting in their selling exclusively to the BGC; and the priority in deliveries sought by BGC and afforded by many manufacturers.

8.10. The BMF claimed that the leading role in the sale and fitting of gas fired 'wet' (ie using water to transfer heat) central heating systems had passed to its members and that some 90 per cent of sales (some of these are supplies to BGC subcontractors) passed through them. The Federation argued that a higher degree of technical competence was necessary in the handling of central heating boilers than in the sale of the less complex reference products and it was therefore illogical to argue on grounds of safety that its members were not

competent to handle gas cookers, space heaters and water heaters. The situation in which BGC held by far the largest part of the market for reference products had, in the BMF's view, been artificially created by the actions of the Corporation. It has recently told us that the number of its members engaging in the sale of reference goods is now again increasing.

The Confederation for the Registration of Gas Installers (CORGI)

8.11. CORGI was established in 1970, after a number of accidents involving gas, with the objective of promoting the safe installation and use of gas pipes, fittings and appliances. Its registrations currently total over 9,000 installers—businesses operated by individuals and installation or servicing companies—who can demonstrate their competence at gas fitting, who possess the necessary equipment and codes of practice and who are adequately insured for public liability risks. The Confederation checks the work of each applicant for registration before his admission and aims to check a sample of each installer's work at least once a year thereafter: for this purpose a staff of 32 inspectors is maintained, organised on a regional basis. It compiles a register—which is open to the public—of approved members, indicating the type of work each normally undertakes. An installer whose standards of work or practical resources fall below requirements may be deleted from the Register.

8.12. The Confederation's premises are supplied by BGC and its full-time staff are employees of BGC (appointed to CORGI by BGC) to which they will return: its costs and employees' salaries are also met by BGC which is substantially represented on its controlling Council.

8.13. Registered installers are recommended to install only appliances which have been approved by BGC or which have the BSI Safety Mark. So far as appliances unapproved by BGC or BSI and secondhand appliances are concerned, the installer is reminded of his responsibility for ensuring its safety in operation.

8.14. The Confederation, referring to the expressed desire of some sections of the trade for a greater number of independent sales outlets, commented that this would need to be accompanied by clear advice on packing cartons and literature indicating to the purchaser to whom he might go for competent installation.

8.15. CORGI reported that some sectors of the private installation and servicing trade were finding extreme difficulty in obtaining apprentice training to City and Guilds Certificate level in gas fitting. These difficulties occurred because, following changes in the C & G syllabus, facilities are not available in the private sector of the requisite standard for the necessary practical workshop experience, and the facilities afforded by BGC's workshops are available only to its own employees. However, CORGI accepted that training to full C & G standard—though valuable—was not essential for most installation and servicing work and that other courses existed (and may be attended by private sector employees) which were useful training for this type of work—for example there were courses to C & G level in plumbing and in heating and ventilating which had a gas element. It did not itself insist on formal qualifications for registration, rather it looked to the quality and safety of workmanship.

8.16. The Confederation felt that there was considerable room for improvement in the supply of spare parts—particularly when sought in small quantities—by manufacturers to the independent service trade.

Consumers' Association (CA)

8.17. The CA commissioned a special survey (carried out in August/September 1978) of the price and availability of gas and electric cookers in 25 representative areas of Great Britain, and its evidence submitted to us was based on this survey together with the evidence gathered from earlier surveys that have formed the basis of reports published in *Which?* in 1974 and 1976.

8.18. The CA told us that their special survey showed that in most areas people had some choice about where they buy their gas cooker, but that there were fewer independent gas appliance retailers than independent electrical appliance retailers and that independent gas retailers tended to carry a much more limited range of stock than BGC showrooms or BGC authorised dealers (which carried similar stock and charged similar prices to showrooms): thus the consumer's range of choice was limited—much more so than in the case of electric cookers—and for many consumers looking for a particular model of cooker there was no alternative to a BGC showroom or authorised dealer. The survey also showed, we were told, that price competition in the sale of gas cookers was less than in the case of electric: there was some evidence to suggest that the lack of price competition could be due to the inability of independent retailers to obtain supplies.

8.19. The CA also commented that BGC service and repair charges were low: it recognised that this was partly due to concern for safety (which the Association regarded as very important) but contended that the provision of such services did not depend in any way on, nor should not be used to justify, the sales monopoly.

National Gas Consumers' Council (NGCC)

8.20. The NGCC and the Regional Gas Consumer Councils were established in 1973 and superseded the regional Gas Consultative Councils: they are independent bodies financed by central government with no links with the gas or appliance industries. Most complaints about gas problems are handled by staff or members of Regional Councils or their local committees.

8.21. The NGCC, after consultations with the Regional Councils, commented that it did not see any need for intervention by the Commission against the independent retail sector which provided an alternative to BGC: it felt that an efficient private sector was of benefit in making BGC more efficient. In the same way, it recommended no external intervention by the Commission against BGC in its relationships with the manufacturers; but it did not see this relationship as perfect and suggested the need for an improvement in appliance quality and for a reduction in defects and, indeed, for a greater readiness to replace new appliances when persistent defects occur. High priority was given to safety factors (to which BGC were considered to have made an important contribution) and also to greater concern for the disabled in appliance design.

8.22. The Council recognised the power of BGC, as a seller, to impose high retail prices (though accepting that this was modified by the fierce competition from electrical appliances) and its power to buy from manufacturers at low prices.

8.23. The Council felt strongly that BGC showrooms should serve a wide purpose: in addition to selling appliances they should, in its opinion, act as communication centres for dealing with appliance problems, arranging for service, obtaining minor spare parts, and paying bills. It saw no objection to showrooms occupying prime sites so long as they were viable but thought that there would be problems (both of the mix of skills and for industrial relations) in any proposal to combine gas and electricity showrooms, though it did think that such mergers could be an alternative to the closure of non-viable showrooms.

8.24. Complaints received about gas service in general (other than complaints about North Sea gas conversions) increased from some 24–25 per 10,000 domestic customers in 1973 and 1974 to about 30 per 10,000 customers in the following three years, but declined to about 28 in 1978: there were wide variations in the regional incidence of complaints. About 40 per cent of complaints related to the sales or service of domestic appliances (other than central heating) and there was a sharp increase in the number of these complaints in 1978.

The Trades Union Congress

8.25. The TUC—after consulting unions with members employed in BGC—felt that it was difficult to segregate the appliance retailing activities of the BGC from its other statutory activities and that appliance sales needed to be considered against the background of the Corporation's total organisation. The TUC drew attention to the need for correct installation and maintenance and emphasised that the similarity of working practices of BGC staff employed on both installation work and gas maintenance work made it possible to maintain economical staffing levels and competitive prices. It stated that the monopoly position of the BGC was the result of lack of interest by other retailers and historic development, not of an aggressive marketing policy by the BGC. To interfere with the present arrangements would, it said, inevitably create a large number of redundancies and to prohibit the BGC from retailing gas appliances would, the TUC estimated, put at risk of redundancy as many as 30,000 jobs. The TUC also pointed to the significance of gas showrooms as gas account collection points and as gas appliance and usage information centres—a function which would be damaged if the restriction of gas appliance sales were to lead to showroom closures. It was also maintained that appliance sales enabled to BGC to make reasonably precise forecasts of the domestic demand for gas.

8.26. Several trade unions with members involved in the manufacture of gas appliances also responded (either centrally or by relaying to the Commission the comments of branches in individual factories) to the TUC's invitation to submit comments on aspects of the reference which concerned their members. Their replies indicated that labour relations in the industry were regarded as having improved and as generally now being good. There was broadly a recognition that improved productivity and efficiency was necessary in order to restrain imports, although it was stressed that this should be achieved by investment,

by broadening markets, without loss of jobs, and that investment and productivity programmes should be subject to prior consultation with unions. One union expressed the view that the BGC tended to support the products of inefficient companies thus restricting the more efficient. A branch of a different union criticised the Corporation, or the effects of its influence, in a number of areas including: its restrictive marketing and pricing policies, its influence on design leading to unnecessarily complicated appliances, higher prices and lower sales volume; the effect of BGC's monopoly in creating an industry which ignored other markets including the export market. On the other hand another branch of that union felt that the BGC monopoly had no adverse effects on manufacturers. The Joint Committee of Light Metal Trades Union (on which a number of unions are represented) took the view that over-capacity within the industry should be countered by a more determined effort to open new markets but made no comment on BGC's influence.

Comet Radiovision Services Ltd

8.27. Comet Radiovision Services Ltd (Comet) said that, in its view, BGC had used its monopoly power to force British manufacturers to restrict supplies to independent retailers: this had resulted in the public being denied the best value in domestic gas appliances, the retarding of appliance design and reduced sales of gas appliances to the advantage of their electrical equivalents.

8.28. We were told that, shortly after its entry to gas appliance marketing, Comet were told by a member of the BGC that, if the company's sales increased unduly, it might encounter supply difficulties: further, the company said that they were told that, if they reacted by importing goods, the BGC would see that they were banned on safety grounds. Manufacturers, the company said, had on many occasions explained to Comet that if they were seen by BGC to co-operate with the company, they were liable to find their products relegated from 'A' to 'B' lists.

8.29. Comet found that in practice the main problem was in cookers. The best cookers—the Superflame range—were not available to them; it was difficult (or impossible) to obtain certain other cookers; and new models were available only to BGC initially. The effect of these factors, we were told, was to be seen in the ratio of gas to electric cookers sold by the company (some 27,700 gas cookers and 64,800 electric cookers in 1979) and in the market share it held (4½ per cent in gas cookers, 8 per cent in electric): the company said that, given a sufficient supply of cookers and what it regarded as fair competition, it saw no reason why it should not achieve at least a similar share of the gas cooker market as it achieves of the electric cooker market.

8.30. Other points made by the company included: that design was dominated by BGC and does not necessarily reflect consumer needs; that manufacturers had shown no interest in Comet's suggestion of entering into forward planning arrangements to programme deliveries; that no manufacturer was up to that time willing to take up space in Comet's advertising material whilst electrical manufacturers competed vigorously for this; and that no British manufacturer had shown any interest in the opportunities for promoting built-in kitchen units created by Comet's acquisition of Timberland (both electrical and foreign gas appliance manufacturers have been quick to follow this up).

The Co-operative Wholesale Society

8.31. The Co-operative Wholesale Society (CWS) told us that, when in the Spring of 1978 it first approached gas appliance manufacturers proposing a pilot scheme to retail appliances through themselves and retail societies, it was surprised at manufacturers' lack of interest: it felt that this was the result of the influence of BGC on manufacturers. The Society did, however, succeed in concluding terms individually with all the major manufacturers with which it wished to deal, but it is convinced that manufacturers liaised closely amongst themselves on the progress of their negotiations with the Society and that none would make a commitment without first consulting the others.

8.32. More recently the CWS has found that manufacturers are less inhibited in dealing with the Society and it feels that there is now no discrimination in matters of delivery priority between themselves and BGC. The CWS, together with retail societies, spent about £100,000 in 1979 on advertising—mostly in the local press. Advertising expenditure in 1980 and subsequently is expected to rise substantially as more retail societies enter the market.

Currys Ltd

8.33. Currys first considered entering the gas appliance market in about 1974. The company found manufacturers extremely cautious: for this reason, and because of installation problems, they decided not to go ahead at that time. An approach in Spring of 1979 elicited a generally more favourable reception from manufacturers (with one or two exceptions).

The case made by the British Gas Corporation

9.1. A major point made by the BGC in support of its position was that, in its view, the effective performance of its statutory duty—that is the development of an efficient, co-ordinated and economic system of gas supply in Britain—was to a great extent dependent upon the effective marketing of gas appliances. It argued that it ‘cannot afford to have its main business left to the efforts of third parties with no commitment to that business’ and it maintained that in the 1950s and 1960s when gas was a less popular fuel than others, only the Area Boards were prepared to sell gas appliances. Hence, the BGC contended, it followed that it must be directly and substantially involved in the retailing of gas appliances in the interests of both present and future generations of gas users. Thus, in its view, the sale of gas and the sale of gas appliances were inextricably linked and appliance marketing could not be treated as a wholly separate entity standing alone and apart from the rest of the BGC.

9.2. A second major point made by the Corporation was that of the need for long-term programming of gas supply as against estimated demand. It argued that in the interest of safety it needed to ensure that it had sufficient supplies to meet the demand throughout a cold winter period lasting 21 days: additionally, in the light of its contracts with North Sea producers, it needed to plan its gas off-take. The Corporation told us that, in forecasting demand, it was of inestimable value to be involved also in appliance retailing since this gave it immediate and detailed knowledge of appliance sales and thus of likely gas needs.

9.3. BGC told us that the purpose of Superflame was to recover the market share lost by the gas cooker to its electric competitor by encouraging manufacturers to develop models incorporating new features and it claimed that its Superflame policy was supported by manufacturers. The Corporation asserted that the significance to the independent retailer of Superflame exclusivity could be—and was—overstated since there were many other models to choose from and freely available to any retailer.

9.4. BGC said that it had no detailed knowledge of the differentials between the prices that manufacturers have charged it and the prices they have charged to other retailers for similar goods. However, the Corporation said that differentials existed before it was formed in 1972 and it thought that since about 1973 there had been little change (its discussions with manufacturers on the subject in 1975 were said to have had no noticeable effect): it was thought probable that there was some increase in 1972–73—though not necessarily universally among manufacturers. The Corporation was of the opinion that such differentials as did exist were justified by the advantages that selling to BGC offered to manufacturers.

9.5. On the suggestion that it sought priority in the delivery of goods which are in short supply, the Corporation said that it would expect prior delivery in respect of those orders whose dates preceded those of orders placed by its competitors. Additionally, in exceptional circumstances, where an advertising or promotional campaign had been so successful that demands for certain goods had exceeded supply, Regions have, it said, considered it right to ask manufacturers that BGC should be given a measure of priority. The Corporation said that it had, at Headquarters level, taken the necessary action with Regions to ensure that the latter did not in any circumstances require priority over parties whose orders with manufacturers pre-dated those of BGC. In respect of specific complaints the Corporation said that in many cases manufacturers will have simply chosen to supply BGC in preference to the independent retailer and claimed that it had no control over manufacturers' decisions to grant such priority.

9.6. The Corporation denied that it had put undue pressure on manufacturers to provide discounts from their normal prices in order to help finance special offers, although it accepted that it had encouraged manufacturers to give such discounts: manufacturers, it said, fully appreciated the benefits of promotional campaigns and were willing to co-operate in providing terms to BGC which would enable the promotion to achieve maximum effect. BGC argued that to seek manufacturers' contributions to promotional expenditure was normal commercial practice and said that it was open to manufacturers to grant similar discounts to independent retailers. The total amount contributed by manufacturers in 1977-78 was said to be £0.75 million—less than 1 per cent of the price paid by BGC for appliances in that year.

9.7. So far as any possible deterrence of investment by manufacturers because of BGC's monopoly position was concerned, the Corporation felt that there had in fact been no general failure to invest; that the advantage of gas as a fuel had contributed to an awareness among manufacturers that the manufacture of gas appliances could provide reasonable profits and a reasonably assured future; and that BGC's dual role, as a supplier of gas and of gas appliances, gave manufacturers a greater confidence in the future of appliance sales than would be the case if BGC did not have so substantial a share of the retail market for appliances.

9.8. The Corporation also felt that its policy as regards the prices at which it could buy appliances from the manufacturer and its dominance as purchaser and retailer had not had any adverse effect, through the medium of insufficient profits, on the ability of manufacturers to modernise their plants and thus increase efficiency, output and export capability. It said it had no reason to believe that manufacturers' profits were insufficient to allow the modernisation of plants and the development of new models.

9.9. BGC argued that because of its role and statutory responsibilities as a gas supplier, it must shoulder a large part of the burden of promoting and undertaking market research into the sale of appliances. At the same time, it argued, this had not led to any lack of independence on the part of manufacturers who were free to advertise and promote their products.

9.10. As regards research and development BGC argued that it had a duty to promote the responsible (ie efficient) use of gas, a responsibility for maintaining and expanding the market for gas and the major responsibility for ensuring that the Gas Safety Regulations were complied with: because of this it needed to involve itself in R & D work including such work in respect of appliances as enabled it to fulfil the foregoing duties and responsibilities. It maintained that manufacturers were perfectly free also to involve themselves in R & D (though in practice their involvement would be narrower than BGC's and confined to the design and development of appliances) and, in fact, most of the R & D necessary to produce a particular appliance was carried out by the manufacturer. Thus the independent position of manufacturers was not affected by BGC's role—largely as a supplier of gas—in R & D.

9.11. Neither did the BGC accept that its predominant position as purchaser of reference products had served to deter efforts by manufacturers in the design or production of models unlikely to be acceptable to BGC, and had thereby inhibited the development of models for export. It pointed out that overseas consumer tastes and testing standards were often very different from those in Britain and that without a sufficiently large market in the United Kingdom a manufacturer would hesitate to commit himself to the design and production of goods suitable for sale in other countries: 'only through a fundamental change in consumer tastes can a sufficiently large home market be created.' BGC did not accept that it had in any way inhibited the development or change in tastes through its sales listing and retailing policies. Indeed, BGC claimed that it had, through UKGAAS, helped to stimulate exports.

9.12. BGC accepted that, having in mind its share of the retail market, manufacturers must be disinclined to develop and produce models that it was unlikely to place on the National Sales List. It said, however, that it would be unusual for BGC to decline to place on the List a product that was technically sound and commercially marketable and it would do so only if it was convinced that the manufacturer's judgment on these points was seriously at fault. In the event that the manufacturer maintained his view, the independent outlets were always open to him. The Corporation added that in such circumstances independent retailers would be aware that BGC most probably had good reasons for rejecting the appliance and that for them to sell it would be risky and unprofitable: thus the manufacturer might have difficulty in persuading such retailers to buy the appliance. Even so, BGC pointed out that log effect fires—which they do not sales list because of their inherently low efficiency—are nevertheless available from a number of retail outlets. BGC believed that it had a responsibility to assist manufacturers in determining whether a proposed product was marketable.

9.13. The Corporation maintained that it had not—either directly or through any of its policies—deterred entry into the manufacturing of domestic gas appliances.

9.14. BGC denied that it was any part of its policy, as a monopoly buyer, to try to retain excess capacity in the appliance industry, or to try to maintain the present number of manufacturers—either of which could distort competition

or disadvantage the economy as a whole. Nor did the Corporation consider that there was any restraint of competition between manufacturers resulting from its position as the monopoly buyer of appliances.

9.15. The returns available to the independent retailer consequent on BGC's pricing and other policies were not, in the view of the Corporation, such as would in themselves deter an independent retailer from entering the market. The small size of the independent market was said to be due to its difficulty (eg in installation) and hence relative unattractiveness. Despite its small size, however, BGC argued that the independent sector had a significant competitive impact. Indeed, BGC adduced figures to show that the independent sector had made considerable progress since 1978. The Corporation estimated that the number of independent retailer outlets had grown from 535 in March 1978 to 595 in March 1979 to 708 in January 1980. Of these, the Corporation would say that whilst there had been 172 discount warehouses or multiple retailer outlets selling gas appliances in March 1979, that figure had increased to 285 in January 1980.

9.16. The Corporation claimed that it was not against the existence of an independent sector. However, it pointed out that its appliance marketing activity was expected to make a profit and to do this it must, it claimed, achieve volume sales. Secondly, it felt that the independents who had so far appeared ('mainly discount houses and corner shops') had not added materially to total gas sales or total sales of appliances. Thirdly, the Corporation did not feel it appropriate to diminish its major role in the retailing of appliances which was an operation, it said, upon which gas sales depended (paragraph 9.1). It felt that no other organisation had 'the resources to sell gas appliances on a retail basis, to promote them and to carry out all the ancillary services' and it said that, in its opinion, 'especially in the content of the present energy crisis, BGC feels that the retailing of gas appliances is too important to be left to discount warehouses, corner shops or other outlets with no long-term interest in gas as a fuel'. It further claimed that during the 1950s and 1960s when gas was not so attractive a fuel, there was little or no private participation in appliance selling.

9.17. The BGC rejected the suggestion that its special offers policy was primarily directed to the disadvantage and prejudice of the independent sector or that it indulged in predatory pricing. It maintained that its policy was primarily concerned to combat competition from electricity. National promotional campaigns, it said, constituted by far the greatest amount of discounting and took place at pre-determined periods without reference to local circumstances in any Region. It was true, we were told, that in some Regions where independent retailers had established themselves, the Regions had competed hard locally, and outside the National campaigns, against such independents in price: but this was regarded as competition, not predatory pricing.

9.18. In the installation and servicing field BGC distinguished between installation, request servicing and regular servicing. As regards request servicing BGC commented that, with the exception of central heating, the independent sector had never shown any interest and that, because of its important consequences for safety, the Corporation thought it was in the public interest to

shoulder the burden of this activity. The Corporation also said that there was not a great deal of regular servicing activity in connection with reference products. As regards its pricing policy for installation and servicing, the Corporation explained that its efforts to achieve more realistic rates for certain activities had been frustrated by price control or by representations from the National or Regional Gas Consumers' Councils. It was also concerned that higher charges might make consumers less ready to have appliances serviced with consequent adverse effects on safety (a fear voiced by the King Report): indeed, on this point the BGC felt that it should seek to do no more than break even. Overall the Corporation felt that the effect of its low prices in this area had been very small indeed and it commented that 'to the extent that BGC's existing charges may have made it difficult for the independent sector to compete in servicing, any detriment in that regard must be seen against the paramount need to maintain the safety record of gas as a fuel, and the benefit which consumers have gained in lower prices'.

9.19. BGC felt that its monopoly position had not led in any way to the inefficient use of its resources in the provision of its services and it rejected any possibility of a pattern of cross-subsidisation from profits on the sale of gas—paragraph 9.27. It maintained that its own systems for management accountability, coupled with the competition it received from electricity and (to a lesser extent) from the independent sector, ensured efficiency. It contended that it was hardly appropriate to reduce manpower and resources devoted to service work if that were going to jeopardise safety.

9.20. The suggestion that BGC's policy in its choice of reference goods for retail sale through its showrooms had unduly diminished the consumer's choice was refuted by the Corporation. It pointed out that the number of models on Regions' 'A' Lists had hardly changed between 1972 and 1979 and that although the number on 'B' Lists had diminished substantially this was the result of a rationalisation, the variations between Regional Lists having been reduced by the exclusion of lower volume, less popular models. As regards the sales listing of foreign models, BGC said that it applied exactly the same criteria to these (product safety and performance, value for money, customer appeal) as it did to British models: it maintained that there was no discrimination against non-British appliances although it did point out that the majority of foreign models were, in its view, ill adapted to the needs of the British market. It believed, in all, that customers had a more than adequate range of models to choose from.

9.21. BGC maintained that its average gross margin (after special offers) of 24 per cent was no higher than the margins of multiple and independent retailers of electrical goods if allowance was made for the mark-up of wholesalers who supplied many of the electrical retailers: BGC was both wholesaler and retailer.

9.22. The Corporation argued that it was not sufficient to apply the normal commercial profit criterion to its appliance retailing operations—for example, the closure of showrooms that were regarded as uneconomic on a simply commercial judgment would be wrong since they helped to maintain gas load growth and provided a public service (accounts collection and queries, advisory services, energy saving and gas safety) to gas consumers. It further argued that

even if it were not engaged in appliance retailing it would still need to maintain a network of showrooms comparable with the present network: these, it said, would be necessary to promote the sale of gas, to display appliances and to fulfil its public service role described above. It did not feel able significantly to reduce the present network.

Appliance Marketing Account

9.23. The origins of the Appliance Marketing Account and the results obtained by BGC under this head are outlined in paragraphs 3.33 to 3.39 and Appendices H 1 to H 4. BGC told us that when it was formed in January 1973 it began to structure its accounts to show separately the results of appliance marketing and of installation and contracting. This required a major management and accounting effort and was made in response to the commitment of the Gas Council to work towards a commercial rate of return on these two activities. The Corporation decided that it could not try suddenly to run appliance marketing as a discrete activity on a commercial basis (since this would, it contended, have jeopardised the expansion of the gas load and would have dislocated both gas and appliance marketing) but should attempt to achieve profitability gradually.

9.24. BGC argued that the improvement in the results achieved in its Appliance Marketing Account in the five years to March 1979 should be seen against a number of constraints. Firstly, it maintained that the performance of appliance marketing was very sensitive to changes in volume. It carried substantial fixed overhead costs—its network of showrooms, stores, transport facilities and payroll: because it believed that its showroom network was there not only to sell appliances but to carry out its public service functions and to sell gas, it was unwilling to reduce this network (and thus its overheads). A second constraint was the general economic situation which it could do little to stimulate: throughout the period for 1973, it said, general levels of consumer demand were static or declining. The conversion programme was stated to be a third constraint in that it accelerated the replacement demand for appliances prior to about 1972, resulting in a reduced demand from about the middle of the decade. A fourth constraint on profitability was strong competition: gas appliances were said to be inherently more expensive than their electric counterparts and more difficult to install.

9.25. Indeed, the Corporation argued that (although it had not adopted this approach) it would be perfectly legitimate for it to look upon the costs and revenues of appliance marketing on a purely incremental basis (ie as a marginal activity). In all the circumstances BGC did not accept that its return on appliance marketing was low and it argued that appliance marketing had performed effectively in the light of all the external constraints. It pointed out that profitability on appliance marketing had improved steadily since 1975 reaching £10 million excluding HP interest in 1978–79 (£18.7 million including HP interest): the Corporation anticipates that the profit for 1979–80 will be approximately the same level as that recorded for 1978–79.

Installation and Contracting Account

9.26. This Account, established for the same reasons and at the same time as the Appliance Marketing Account, had always been in deficit. BGC said that it had been its objective gradually to bring it to break even but, for the reasons outlined in paragraph 9.18, it had not been able to do so. From June 1979 an increase of 25 per cent had been implemented in installation and service charges, 'a first step towards moving charges closer to costs,' and further increases were intended in 1980. Whilst it said that it was taking action to correct the long standing situation, nevertheless, for safety reasons, it did not think that on servicing it should seek to do more than break even.

Cross-subsidisation

9.27. BGC did not accept that either the Appliance Marketing Account or the Installation and Contracting Account had been subsidised by its Sale of Gas Account. BGC argued that, in any event, the concept of cross-subsidisation was inappropriate for two reasons. First, one could not properly talk of cross-subsidisation in relation to two businesses as closely integrated and interdependent as the appliance marketing and gas supply businesses. Secondly, one could only talk of cross-subsidisation where it was possible confidently to attribute costs and benefits to their true source; that was not the case, the Corporation argued, here (where, for example, action taken to stimulate the attractiveness of gas in the minds of consumers would have the effect of increasing demand for gas appliances and vice versa).

Spare parts

9.28. BGC argued that it should not act as wholesaler of spare parts to the private sector—other than where other traders are working under contract to BGC. It gave its reasons as: it would be facilitating the carrying out of work by people whose competence it could not assume and, indeed, it could easily be construed as encouraging such people to do the work; the efficiency of its operations could be reduced if it accepted an obligation to provide parts on demand; it would be not unlikely that work formerly done by BGC's trained servicemen (in whose training BGC invests substantially) would be carried out 'by less competent private traders' to the detriment of appliance users; and the considerable labour relations problems which could be engendered with its own work force of service engineers.

Training

9.29. The Corporation believed that the City and Guilds Gas Service Engineer Certificate did not provide skills appropriate to the needs of the private installation and service sector generally: thus the changed C & G requirement now involving a period in a BGC training centre need be of little concern to the private sector. The BGC said that, in its opinion, training in the skills needed in the private sector (mainly fitting and installation with an acquaintance with gas technology) were already available in the advanced craft certificate for plumbing and for heating and ventilation fitting: further, the Construction Industry Training Board had asked the C & G London Institute Advisory Committee for Gas for assistance in establishing a new examination to meet

the needs of the private sector; and the CGLI Advisory Committee for Construction has constructed a suitable gas technology syllabus for use as an extension to the advanced craft certificate mentioned earlier. Finally, the Corporation stated that, should there arise a need in the private sector for C & G certified gas service engineers, it was open to that sector to organise appropriate workshop facilities: the BGC would have no objection to the requirements being changed to include such a workshop as one of those authorised by the C & G.

The case made by Thorn Gas Appliances Ltd

Market power

10.1. TGA contended that, whilst it had a scale monopoly in the supply of gas cookers and gas instantaneous water heaters, that monopoly did not confer on it any effective market power: such power lay in the hands of BGC which combined its statutory monopoly in the sale of gas with its position of dominant retailer and controller of the test house which tested appliances both to British Standards and against its own additional requirements. Moreover, the company faced major competitors in the gas appliance field (as well as competition from electrical appliances) and given both its manufacturing capacity, the unused capacity available with other manufacturers and the fact that its profitability could be radically affected by relatively small changes in business (the company estimated that a 9 per cent reduction in cooker production would reduce profits on cookers by £1½ million), it felt that it was as vulnerable as a manufacturer which did not possess a scale monopoly.

Financial strength

10.2. Although it was a member of the Thorn Group, TGA told us that it was an independent profit centre within the Group and was expected to stand on its own feet: it could not expect subventions from the Group. A relatively small loss of business with BGC could wipe out its profits: the company could not then, it maintained, be expected to put its commercial success seriously at risk by flouting the wishes of its monopoly customer.

Competition within Thorn Group between gas and electrical interests

10.3. TGA stated that the gas appliance and electrical appliance manufacturers within the Thorn Group were in constant and vigorous competition with each other and the fact that these companies are all subsidiaries of Thorn EMI Ltd (TEMI) did not have an adverse effect upon competition between such appliances nor upon the flow of investment funds. Nor had the possession by TEMI of subsidiaries which manufactured both gas and electrical appliances had any influence on the decision of Rumbelows (the Thorn retail chain) to sell, so far, only electrical goods.

Pricing and profits

10.4. TGA recognised that its return on reference products has been less than adequate in the four years to 31 March 1977 and that, despite improvements in 1977-78 and 1978-79 (which it attributes to increased efficiency resulting from re-organisations and investment) the gross margin on cookers was still below what TGA looked for in order to achieve a reasonable rate of return. The company maintained, however, that TGA's pricing had been as realistic as

the market, the competition and the constraints imposed by Government prices and incomes policies, had permitted. The company thought that the present, improved level of profitability was unlikely to lead to a reduction in real terms in appliance prices since the return was no more than adequate. But it was anticipated that the effect of recent investment would be to make TGA a more efficient, lower cost producer which would give it a greater flexibility to adopt marketing policies (including lower prices or better appliance specification or more advertising) than had hitherto been available to it because of financial limitations.

Rationalisation and investment

10.5. TGA said that Thorn had acquired Parkinson Cowan (P-C) in 1971 not with the objective of rationalising the gas appliance activities of P-C and Main, but because P-C had a number of manufacturing interests that complemented those of the former Glover & Main companies (which Thorn had acquired in 1965). P-C's gas cooker business was assigned to the division of Thorn which TGA was formed to control. TGA's first priority was to get P-C's gas cooker business on to a sound financial footing: only then could it consider how best to integrate the businesses of P-C and Main (a difficult matter between traditional competitors). As a first move towards integration, the two marketing, finance and administration operations were put together. This led to a unified management team able to examine the matter impartially. In April 1976 TGA recommended to the TEI Board (which immediately accepted the recommendation) a major re-organisation of the P-C and Main operations, with a new range of models and a more mechanised approach: the detailed planning began at once. In those circumstances TGA felt that it had given due priority to the rationalisation and development of its facilities for the manufacture of reference products.

10.6. The total effect of the rationalisation and investment would be to increase total capacity by only 5 per cent, but TGA expected to achieve substantial economies of scale from the concentration of mass produced cookers at Stechford, from new and improved production methods and from rationalisation of its model range. The company maintained that even if maximum planned production levels at Stechford were not continually achieved, economies of scale would still be realised and the investment would still be profitable.

Research and development, technical innovation and design

10.7. TGA maintained that its design and development costs (which averaged some 2 per cent of turnover) were above the average for United Kingdom industry and compared favourably with engineering industry in Europe. It contended that it had played a leading part in the introduction of new designs (eg its metric range of cookers), the efficient use of fuel (eg electric spark ignition to replace pilot lights), improvements in convenience and safety (eg removable spillage bowls and re-ignition systems), and the use of new materials.

10.8. TGA further maintained that, whilst its monopoly customer occupied a position where it could inhibit manufacturers in their design and development initiatives, it did not regard itself in practice as having been significantly inhibited in such initiatives by BGC's position. So far as any possible conflict between the perceived wishes and needs of the consumer and the requirements of its principal customer was concerned, TGA said that it sought a modification of the latter (either itself or through SBGI) to secure greater flexibility where, in its view, this best accorded with market needs. The company asserted that it had not been deterred from introducing a new appliance to the market for fear that it would not be acceptable to BGC and claimed that it introduced the Lincoln cooker so that a Main model should be available to the independent sector when all other Main models became Superflame appliances (a second cooker for the independent sector had been planned but was not launched because of lack of adequate demand).

Market research and advertising

10.9. Although BGC conducted a great deal of market research, TGA said that little was made directly available to it and it in no way relied upon BGC in this respect. Accordingly it regularly commissioned or purchased market research—both of a nature general to gas appliance marketing and specifically in respect of its own products.

10.10. TGA attached great importance to brand advertising and promotion. It expressed concern that BGC's demands for discounting in support of their promotional campaigns might unduly restrict the funds available for brand advertising.

Exports

10.11. TGA asserted that its monopoly position in the home market did not operate to deter it from promoting exports: it had, indeed, set up a company (TGA (International)) for that purpose. However, it pointed out that the gas appliance industry suffered serious obstacles—particularly technical problems and different consumer requirements. Given these problems, breaking into new foreign markets was likely to require specially designed ranges of goods and the cost of design and tooling for this could not be justified unless there were some reasonable assurance of substantial sales. It was currently exploring overseas markets through the medium of bought-in appliances: if these proved successful—as one had—it intended to design, manufacture and export its own equivalent model.

Relations with BGC

10.12. TGA maintained that, far from yielding too readily to BGC pressure to maintain or increase the Corporation's share of the retail market, it resisted BGC's proposals for exclusivity of supply and stencil branding outlined in paragraph 3.7. But it felt obliged to accept BGC's Superflame policy in principle. About half of its range of cookers were brought within the scheme.

10.13. The company stated that it had not accorded priority of delivery to BGC as a general practice but had done so only (a) when a new model was being introduced and BGC had agreed to run a major campaign to promote it and (b) when it had proved impossible during the normal course of production to meet demand for a particular product. In the latter case TGA said that it had tried to maintain equity between its principal customers by meeting a percentage of their orders since it believed that this was a sensible commercial decision even though some small traders had to wait longer for supplies.

10.14. TGA said that it believed there to be good objective reasons for the existence of a reasonable differential between prices to BGC and prices to independent retailers: the granting of an increased differential by TGA, although resulting from BGC pressure, reflected that belief. The reasons referred to by TGA included BGC's advertising and promotional activities, its importance in combating the competition from electricity as a fuel, its servicing facilities and its volume offtake. TGA believed that the differentials it applied in practice were reasonable, enabling large independent retailers to purchase appliances at prices which represented only a small differential above the prices to BGC. The company also told us that the differentials conceded were of the order of those indicated by BGC as being realistic and, given BGC's market power and the competition between manufacturers, it had felt obliged to comply.

10.15. Overall, TGA said that, despite the BGC's dominant position and ability in the final analysis to impose its wishes on TGA, the Corporation had acted on the whole in a reasonable and responsible manner and, in its opinion, to the good of the industry. There had certainly, according to TGA, been occasional arguments and difficulties, but these had normally been resolved by means of sensible discussion: the company said that it had found the Corporation increasingly a reasonable organisation which had not been deaf to the representations made by the manufacturers. TGA had not, it said, in practice found itself significantly inhibited in its design and development of gas appliances by BGC's monopoly position.

Attitude to independent retailers

10.16. TGA told us that, as a matter of policy, it regarded it as being necessary in its own interest to support new major channels of distribution and it was prepared to risk short-term loss of sales to BGC if that should be the consequence. With that policy in mind it had, it said, acted to facilitate the entry of CWS, Comet and Currys to gas appliance retailing.

Relations with other manufacturers

10.17. TGA submitted that Section meetings of the SBGI gave manufacturers the opportunity to discuss and identify matters of common concern and, where appropriate, to formulate a joint approach to BGC through the SBGI Joint Committees: discussions within Section 6 about BGC's sales listing procedure and about the terms to be incorporated in Superflame agreements were quoted

as examples of such matters. It contended that, in the absence of such opportunities, there was no way in which the BGC's power could be counterbalanced—even if BGC were to make proposals which were considered by manufacturers to be detrimental to the industry and to the public. Additionally, in TGA's view, the SBGI played an important role as a channel of communication between the BGC and manufacturers, in its wider liaison work (eg with Government departments and consumer organisations) and in technical and safety matters, the compilation of statistics, etc. TGA maintained that, when the occasional informal discussion with competitors outside SBGI had taken place, this was no more than 'soundings' which were a normal part of competitive commercial life with a view to assessing where the market was going and what moves particular competitors were likely to make.

10.18. The background to several issues discussed in SBGI was explained to us by TGA:

- (a) as regards pressure by BGC to increase the differentials between TGA's prices to the Corporation and its prices to other retailers (paragraphs 6.5 (a) and 10.14), TGA maintained that discussions within SBGI ultimately got nowhere and that its decision to concede increased differentials was unaffected by discussions in SBGI;
- (b) although there were discussions in SBGI on a BGC request to increase the period of notice of price changes (paragraph 6.5 (c)), TGA decided that it had no option but to accede to BGC and it made its decision independently of other manufacturers;
- (c) the circulation of price information (see paragraph 6.5 (d)), was described as nothing more than a convenience. TGA said that, at the time of circulation, its prices and those of competitors had already been notified to BGC and competitors' prices were often known to TGA;
- (d) because of its dominant position as purchaser and retailer, BGC's marketing proposals were the concern of the industry as a whole as well as individual manufacturers. If a BGC marketing proposal were potentially undesirable it was only through collective representation by the manufacturers that any degree of countervailing power could be exercised since no individual manufacturer could itself withstand BGC.

10.19. We were told that TGA exchanged information in GSMP about price changes or prices for new models (see paragraph 6.7) only when those prices had been notified to BGC. The effect of the announcement of new models was said to be 'at most, to advance the time of competitive reaction . . .'. As regards the other major role of the GSMP—the exchange of information and views about BGC promotional campaigns (paragraph 6.8)—TGA asserted that this was a reaction to the constant pressure to which manufacturers had been subjected by BGC, its Regions and Areas, for larger contributions towards advertising and promotion (in some case the BGC approach had, in any event, been to seek contributions from the industry as a whole). These discussions (which had occasionally given rise to agreements which the parties now recognise as possibly being registrable and which would be dealt with between them and the Office of Fair Trading) had, in TGA's submission, arisen out of a real concern to preserve a proper balance between BGC promotions and brand advertising.

10.20. As regards the exchange of views between manufacturers about the entry of the CWS into the merchanting of gas appliances, it was argued at a meeting of the GSMP on 3 June 1977 that, unless there was common agreement among members to participate, some members might be reluctant to take part. TGA explained that the BGC might have found the CWS entry unwelcome and, therefore, some manufacturers might not have been prepared to risk the disfavour of BGC had it been visited upon only one, or a small number, of them. But we were told that the matter was taken no further.

10.21. So far as the discussions with TI on the penetration of the British water heater market by Chaffoteaux were concerned (paragraph 5.19), TGA said that these were merely intended to explore the possibility of setting up a joint production facility as a means of combating European manufacturers with a much larger production and came to nothing.

CHAPTER 11

The case made by Chaffoteaux Ltd

11.1. Chaffoteaux told us that it started to sell water heaters to the British Gas Boards in the late 1960s. Initially these sales were mainly of sink heaters, indigenous supplies of which were insufficient. We were told that no special arrangements were made for Chaffoteaux' entry and that the company's products had to go through the same rigorous testing (by the Gas Council and, more recently, by BGC) as any other British or foreign product.

11.2. The company accepted that it was the only foreign manufacturer to be sales listed by BGC but argued that this was not a matter of discrimination in its favour, but rather an indication of other foreign manufacturers' lack of interest or failure to penetrate the market by providing the right product with the right technical back up.

11.3. The relationship between Chaffoteaux and its French parent company was described as very close particularly on the technical side but the British company was said to have fairly considerable autonomy: apart from the financial link Chaffoteaux is considered by the parent company as a normal customer. The price at which Chaffoteaux sells is determined by the British company which, we were told, simply marked up the landed price of its heaters by the percentage necessary to run the company and to make a reasonable profit. We were told that Chaffoteaux' prices were below those of competitors and, in consequence, its mark-up was substantially less than it could achieve if it were to have regard only for maximum profit: it was company policy, however, to be highly competitive and to aim to increase market share.

11.4. Chaffoteaux sold only about 20 per cent of its appliances to the independent retail sector. It did, however, maintain a network of appointed stockists and it did, independently of BGC, advertise its products. The company's policy was said to be to encourage small retailers to purchase from appointed stockists and its price list was structured to this end with prices for quantities of 25 or over being only marginally above its prices to BGC.

11.5. The company claimed that it had no knowledge of discussions in SBGI or elsewhere about differentials between prices to BGC and to other retailers and it did not provide the SBGI with its price lists (though it is prepared to do so if asked). It also disclaimed any knowledge of, or involvement in, any of the other issues relevant to Chaffoteaux which were discussed in the SBGI or elsewhere and which are referred to in Chapter 6.

Evidence of other British Manufacturers of Reference Goods

12.1. Comments and evidence (written, oral or both) were received from the nine other British manufacturers of reference goods. Most of these indicated that they were concerned to achieve the maximum retail exposure for their goods and to this end they welcomed the entry of new independent retailers (including Comet, CWS and Currys) to the trade so long as their commitment was long-term and their retail activities were backed up by adequate after-sales service: they were, then, willing and anxious to sell to independent retailers at prices that would encourage the latter. However, manufacturers generally were aware that BGC was by far their most important customer and the various minutes of SBGI and GSMP meetings we have seen, together with the minutes of some manufacturers' Board meetings (such minutes generally having been written several years before the start of the inquiry) and their submissions and comments to the Commission, strongly suggest that they feel unwilling individually and alone, overtly to support independent retailers in defiance of BGC's wishes (or, indeed, to oppose the Corporation in any important way) since, they were convinced, the penalty for this could be severe disadvantage to their products and hence to their company. Manufacturers felt that, individually, their power *vis-à-vis* BGC was small: and, even collectively, there was substantial doubt as to their ability to withstand the Corporation's market power, coupled with anxiety that the Corporation would be able to 'pick them off' one at a time.

Relationships between manufacturers

12.2. As indicated in Chapter 6 there are two organisations at which manufacturers have exchanged views—the SBGI and the GSMP. The SBGI was viewed by manufacturers generally as much the more important forum of the two, being valuable to them as a means of exchanging views on technical and marketing developments, safety and reliability, and in exchanging market intelligence. One manufacturer commented that, had the Joint Marketing Committee existed earlier in its present form, the Superflame scheme might have been averted or its effects mitigated. Whilst nearly all manufacturers accepted that discussion of marketing issues between manufacturers and between them and the BGC took place in the SBGI (and the GSMP), several expressed the view that it was entirely appropriate that they should have a mechanism through which they could talk to the dominant buyer of their goods and the monopoly supplier of the fuel used by their products. All manufacturers stated that there was no discussion in SBGI on prices related to specific models of appliance or on manufacturers' specific intentions as regards prices, although some of them accepted that exchanges took place (either formally or informally) on prices generally. The following paragraphs (12.3 to 12.10) deal with evidence submitted on other topics discussed in these organisations.

12.3. We were told by several of the nine manufacturers that during the discussions on differentials in prices between goods supplied to BGC and goods supplied to other retailers (paragraph 6.5 (a)) they were individually under intense pressure from the Corporation—both centrally and regionally—to establish substantial differentials between BGC and the next best price: the differentials indicated were said to be of the order of 20 per cent and there is some evidence that manufacturers were told that failure to comply could lead to their products being taken off BGC's sales list. As indicated in paragraph 6.5 (a), the issue was debated at length in SBGI and, although no agreement or conclusion appears to have been reached formally by that body, the major manufacturers felt impelled to increase differentials (Appendix E shows the level of, and changes in, differentials for a number of appliances over several years). Some manufacturers said that they felt that some differential was justified by the service provided by BGC.

12.4. Several manufacturers said that there were discussions between the BGC and SBGI in joint committees about the sales listing and the Superflame schemes (paragraph 6.5 (b)). But these discussions were defended as a natural reaction by manufacturers and were said to have been in the interests of all manufacturers when faced with a decision by so large a customer 'to implement unilaterally certain procedures'.

12.5. Most of the nine manufacturers also accepted that there had been discussions in SBGI about attitudes to large retailers specifically and to independent retailers generally (paragraph 6.5 (g)) but these appear to have arisen either from a specific approach from BIGAR for discussions at Section level or from a desire by manufacturers to ensure that none of them was stepping too far out of line *vis-à-vis* their major customer: there is no evidence that any of these discussions led to any agreement between manufacturers or, indeed, were intended so to do.

12.6. Nearly all the nine manufacturers agreed that they sent to SBGI details of changes in their prices to BGC in pursuance of the agreement mentioned in paragraph 6.5 (d). However, all manufacturers taking part stressed that they supplied such details only after the price had been agreed with BGC and several said that the arrangement was merely a cost-effective and convenient way of acquiring information that could be obtained anyway.

12.7. It was accepted generally by these manufacturers that there was discussion in SBGI on BGC's request for a longer period of notice of price changes (paragraph 6.5 (c)). The discussions were described as ultimately inconclusive (although at one point the proposal was resisted by both cooker and fires Sections) and it was maintained that there was no final agreement, companies individually making their decisions and communicating them direct to BGC.

12.8. Most of these manufacturers accepted that exchanges regularly took place in the GSMP about prices to be charged for new models and about forthcoming price increases. Several members of the Panel said that such exchanges of information took place only after prices had been agreed with

BGC, whilst others said that the exchanges were of a 'bluff and probe' nature. Some manufacturers acknowledged that they used such information as they obtained from these exchanges in formulating their company's policies, whilst others said that intelligence gained in this way played no part in their decisions.

12.9. Most of these manufacturers agreed that discussions had taken place within GSMP on BGC promotional campaigns and, as noted in paragraph 10.19, some of the resulting agreements could be registrable. Discussions on promotional campaigns and on marketing policy generally were defended as being necessary, firstly, as a means to the containment of requests by BGC for price discounts in order to finance promotions and, secondly, in order the better to co-ordinate campaigns to enhance their public impact.

12.10. The entry of the CWS to gas appliance retailing was also discussed in GSMP meetings. It was explained to us by one member of the Panel that manufacturers were anxious to ensure the fitness of the Society to provide after-sales service. Another member said that during the discussions 'the hope was expressed that all manufacturers would supply CWS so that BGC could not remove individual manufacturers' products from the "A" list', but that despite it having been recognised that 'in the absence of an agreement between manufacturers to supply CWS, individual manufacturers might be reluctant to supply CWS', no agreement in fact resulted from these discussions.

Relationships with BGC

12.11. The dominance of BGC and the effect of this situation on these manufacturers was clear from a number of the submissions and minutes: some of the impact of this is clear from the foregoing paragraphs. Other points made by manufacturers were:

- (i) that the Corporation's dominance was such that it was unlikely that it could be challenged by other retailers—particularly if BGC were determined to maintain its market share;
- (ii) that this situation was even less likely to change given the fact that the BGC's appliance sales did not have to be commercially viable in themselves and that the Corporation, unlike its competitors, was content to make only a small profit;
- (iii) that it would not at present be economic to design and produce a model which BGC would not sell. It was suggested to us that there was a real demand for a low cost basic cooker (without, for example, spark ignition) but that such a proposal had no chance of succeeding in the Corporation's Domestic Sales Committee since the latter was looking to technical upgrading of cookers as a marketing tactic. Thus, since BGC was not interested in marketing such a basic cooker and since there was an insufficient market outside BGC, manufacturers would not take the risk of producing one;
- (iv) that BGC Regions expect to be given priority over other retailers in obtaining appliances in short supply—and, indeed, may even vie with each other in their efforts to obtain such models.

Conclusions and Recommendations

The monopoly situation

13.1. We are required by our terms of reference to investigate and report whether a monopoly situation exists in relation to the supply in the United Kingdom of each of the following descriptions of goods, being appliances designed for domestic use and for burning gas through a main (whether or not adaptable to burn gas not so supplied), namely:

- (i) cookers;
 - (ii) space heaters; and
 - (iii) instantaneous water heaters
- as defined in the reference.

13.2. We have obtained information relating to the supply of these goods within the United Kingdom. These figures are set out in Appendix A to the Report.

(I) Scale monopolies

13.3. These figures show that Thorn Gas Appliances (TGA) was the largest manufacturer of gas cookers throughout the period 1972-73 to 1978-79 and that it had, through its Main, Parkinson Cowan and Moffat brand names, a share of the order of 40 per cent both by number and value of cookers sold. TGA accordingly held throughout the period a share substantially in excess of 25 per cent by number and by value of the total supply of gas cookers within Great Britain and therefore is a scale monopolist within the terms of section 6 (1)(a) of the Fair Trading Act 1973.¹

13.4. No other manufacturer of gas cookers enjoyed a share of the market of the order of 25 per cent during this period.

13.5. We have understood space heaters as comprising both the long-established radiant gas fire and the newer types of unit heater. Whilst throughout the six years 1972-73 to 1977-78 United Gas Industries (UGI) had the largest share of this market, its share exceeded 25 per cent by number in only three of those years (1975-76, 1976-77 and 1977-78), and exceeded 25 per cent by value in four (1972-73, 1973-74, 1975-76 and 1976-77). In the year of the reference, 1977-78, in particular, its share was 25.1 per cent by number and 24.4 per cent by value.

¹ The relevant provision of the Act reads as follows:

'6 (1) For the purposes of this Act a monopoly situation shall be taken to exist in relation to the supply of goods of any description in the following cases, that is to say, if—

- (a) at least one-quarter of all the goods of that description which are supplied in the United Kingdom are supplied by one and the same person, or are supplied to one and the same person, or'

In 1978–79 its share fell below 25 per cent on both methods of calculation, being 24.3 per cent by number and 24.0 per cent by value. Thus the company's share of the market has fallen below 25 per cent by value for the two most recent years for which figures are available. The share of Valor Ltd in 1977–78 stood at 19.3 per cent by number and 22.2 per cent by value, having been lower in all the preceding years. In the following year it rose to 22.4 per cent by number and 25.2 per cent by value. These figures do not show either company as possessing clearly and consistently 25 per cent of the market. We have therefore concluded that we should not be justified in regarding any firm engaged in the manufacture of space heaters as a scale monopolist within the terms of section 6 (1) (a) of the Fair Trading Act.

13.6. In the case of gas instantaneous water heaters the market share held by Radiation-Ascot Ltd (a part of Tube Investments Domestic Appliances Ltd (TIDA) which is in its turn a part of Tube Investments Ltd), which was as high as 49 per cent by value in 1972–73, had declined to 21 per cent in 1977–78. In 1977–78 TGA had a share of 52 per cent by value of this market. In the same year Chaffoteaux, the French newcomer to the market, had a share of 26 per cent by value. There are no other manufacturers of this product whose goods are widely sold in the United Kingdom market. In these circumstances we find that both TGA and Chaffoteaux are monopolists within the terms of section 6 (1) (a) of the Fair Trading Act.

13.7. Under the terms of section 6 (1) (a) of the Fair Trading Act a monopoly also arises if at least a quarter of all the goods of that description which are supplied in the United Kingdom are supplied to one and the same person. The information given in Appendix C shows that the British Gas Corporation was by far the largest purchaser of these appliances for the purposes of wholesale and retail sale. In the year 1977–78 some 93 per cent of cookers, 88 per cent of space heaters and 67 per cent of instantaneous water heaters, calculated on the basis of the number of each supplied in Great Britain by British manufacturers and by import, were supplied to the Corporation. The Corporation was even more dominant in the supply of these appliances to the public by retail sale: according to the BGC in the year 1977–78 its share of appliances so supplied¹ was 97 per cent of the total number of cookers, 92 per cent of the number of space heaters and 97 per cent of the number of instantaneous water heaters supplied to the final user. We therefore find that the British Gas Corporation is a monopolist under the terms of section 6 (1) (a) of the Fair Trading Act in relation to the supply of all three classes of goods both to the Corporation and by the Corporation.

13.8. We have accordingly come to the conclusion that by virtue of section 6 (1) (a) of the Fair Trading Act 1973 the following monopoly situations exist:

- (a) in favour of TGA in relation to the supply in the United Kingdom of gas cookers;
- (b) in favour of TGA in relation to the supply in the United Kingdom of gas instantaneous water heaters;

¹ This excludes the numbers sold to intermediate purchasers such as, for example, independent installers. The number is substantial in the case of instantaneous water heaters.

- (c) in favour of Chaffoteaux in relation to the supply in the United Kingdom of gas instantaneous water heaters;
- (d) in favour of BGC in relation to the supply in the United Kingdom of each of the three classes of goods to the Corporation;
- (e) in favour of BGC in relation to the supply in the United Kingdom of each of the three classes of goods by the Corporation.

(II) Complex monopoly

13.9. All the United Kingdom manufacturers engaged in the industry (and also Chaffoteaux) are members of the Society of British Gas Industries (SBGI) and all domestic manufacturers of gas cookers and of gas space heaters are also members of a lesser, and now inactive, body, the Gas Stove Makers' Panel (GSMP). It is evident from Chapter 6 of the Report that discussions have frequently taken place between manufacturers, chiefly but not exclusively, within these two bodies. We have to consider and to report how far these discussions, and any agreements or understandings or any course of conduct which may have resulted from them, amount to a complex monopoly as defined within the provisions of section 11 (1) of the Fair Trading Act, and if so whether this has operated, or may be expected to operate, against the public interest.

13.10. There appear to us to be six issues which call for separate examination in this matter.

(a) Discussions within the SBGI relating to the levels of differential between prices charged to the BGC and those charged to other retailers

13.11. In 1972–73 discussions on this subject took place between the BGC and the SBGI in the light of the Corporation's strong concern that it should not be exposed to what it regarded as unfair competition from independent retailers. Provisional agreement on a certain minimum differential was reached in 1973 within that section of the SBGI which represents cooker manufacturers. The section representing space heater manufacturers did not accept this figure, but was prepared to discuss it further with the Corporation. Since the provisional agreement was not found acceptable to the SBGI as a whole, discussion of the matter between the SBGI and the BGC came to an end and no final agreement was reached between the members of the SBGI. However, as is described in paragraphs 3.13 and 6.5, and illustrated in Appendix E to this Report, these differentials have been subsequently increased by various amounts by the major manufacturers in deference to the Corporation's pressure on each of them.

(b) Understandings that price information should be circulated by the SBGI and that information on new products be submitted to the GSMP before their launch

13.12. Details of new models of gas cookers and space heaters, and the prices to be charged to the Corporation for them, were normally announced to members of the GSMP shortly before the models' release to the public, and the price information also circulated within the SBGI at that time or shortly afterwards. Both of these arrangements have been of long standing within the

industry. These exchanges of information are not made until the price information is already in the hands of the Corporation.

(c) Discussions between members of the SBGI on the period of notice to be given of price changes

13.13. It was customary that four weeks' notice be given by manufacturers to the BGC of intended price changes. In the summer of 1975 the Corporation requested that the period of notice be increased from 4 to 6 weeks. The cooker manufacturers' section of the SBGI agreed that they wished to retain 4 weeks' notice, and the BGC were informed accordingly. None the less, all manufacturers of gas cookers and space heaters in fact acceded to the Corporation's request.

(d) Discussions on entry of Co-operative Societies

13.14. As indicated in paragraph 6.9, when the Co-operative Wholesale Society first took an interest in retailing gas appliances, the manufacturers were unwilling to respond except after discussions between themselves. These took place in the GSMP and informally. It does not appear that any decisions were taken jointly about the level of prices to be charged to the societies, or what, if any, discounts should be offered them.

(e) General discussions on industry policy

13.15. Discussions of an informal character have taken place as referred to in paragraphs 6.6 and 6.10 from time to time between manufacturers. There have been occasional top level discussions to exchange views on major issues relating to the future of the industry, its relationship with major and potentially major national customers and the best methods of meeting foreign competition. There have also been informal social meetings, notably following meetings of the SBGI, at which members have discussed their plans informally and probed each other's plans.

Conclusion relating to (a) to (e)

13.16. We therefore conclude that all manufacturers of reference goods belonging to either or both of these bodies have so conducted their respective affairs as to restrict or distort competition. We accordingly find that by virtue of sections 6 (1) (c) and 6 (2) of the Fair Trading Act a complex monopoly situation relating to the supply of each class of reference goods exists in favour of all suppliers who are members of the Society of British Gas Industries or the Gas Stove Makers' Panel.

(f) Agreements relating to special discounts

13.17. Manufacturers also had pressures put upon them by the Corporation, mainly at regional and local level, to offer progressively higher discounts to showrooms at the times of special campaigns and offers. Such pressures were from time to time the subject of discussions in both bodies and of *ad hoc* agreements, normally of a local character, reached between manufacturers within the GSMP. Such agreements were frequently broken and in order to achieve more effective co-ordination a proposal was made by space heater manufacturers, through the SBGI, that the maximum discounts for advertising purposes from net gas fire prices should be limited to 4½ per cent.

13.18. It was acknowledged to us by the manufacturers concerned, through their legal advisers, that any such agreements are registrable under the Restrictive Trade Practices Act. We understand that these matters are being followed up by them with the Office of Fair Trading, and we therefore offer no further comment.

The Public Interest—Manufacturers

(a) Their position

13.19. The major companies in the industry are subsidiaries or divisions of groups with wider interests. Three of them, Thorn Gas Appliances, Tube Investments (TI) and Cannon, are parts of major industrial groups, and the range of products of the first two also include competing domestic electric cookers. Glynwed is a smaller industrial group also with diverse interests. Valor and UGI are much more dependent on gas appliances.

13.20. In the case of most of the companies the buildings, plant and machinery devoted to the manufacture of reference goods are relatively old. For many years investment in many companies within the industry has been insufficient to sustain, let alone improve, efficient production capacity. TGA, Valor and Cannon have invested rather more heavily in recent years and their investment rate per employee is broadly comparable with the average for United Kingdom engineering companies producing the most nearly comparable goods.¹ Among the other companies which have invested little in recent years, TI has lost market share and has recently withdrawn from the gas-fired sink heater market which its brand name Ascot once dominated. UGI has managed to hold on to its position as the leading United Kingdom producer of space heaters but its policy is to rely more heavily than other manufacturers on the assembly of bought-in components.

13.21. We have also noted the gas appliance industry's failure, as clearly shown in Appendix B, to develop exports. With a substantial and secure home market it might have been expected to have done so, and some of the groups engaged in the gas appliance industry have export achievements to their credit in other fields of activity. For example, the electric cooker industry, in which some of these groups are also active, has in recent years exported some 8 per cent to 10 per cent of its production. We have been told that the preference on the continent (see paragraph 2.21) for ovens with all-round even heat, for high output convector heaters, and for conventionally-flued water heaters creates obstacles to the development of export markets for British gas appliances. British manufacturers do not appear to have made sufficient effort to surmount these obstacles.

13.22. We turn to consider why the United Kingdom appliance industry should be in this condition at a time when gas has become increasingly competitive as a fuel for heating and cooking and after a period when many manu-

¹ These are within the Standard Industrial Classification Orders VIII and IX, Instrument Engineering and Electrical Engineering, which include such product groups as electrical appliances primarily for domestic use, scientific and industrial instruments and miscellaneous electrical goods.

facturers made substantial profits from work associated with the conversion of existing appliances to natural gas. This seems to us to stem chiefly from the dominant position of the BGC. This is exercised in the first place as monopoly buyer and retailer, but the Corporation has additional weight as the statutory monopolist supplier of the fuel. It is therefore in a position to exercise a strong influence over appliance design and manufacturers have found themselves obliged to comply with the Corporation's wishes as to the type of models produced, their design characteristics and their promotion. It is our impression that the manufacturers—even those which form part of groups with substantial manufacturing involvement in other fields—have come to rely too greatly on the Corporation for research and development, basic design, market research and marketing, so that their own activity in these fields is now inadequate for the nature of the goods and the changing demands of the final customer.

13.23. As far as research and development are concerned, this reliance cuts out duplication of the work between the manufacturers, but it has had the effect of weakening their individual development and design capabilities. The Corporation also imposes stringent sales listing procedures which effectively block the development and sale of appliance models unless their design features are acceptable to the Corporation. This has not stifled all innovation, as is shown in the introduction by UGI and Valor of wall-fixed unit heaters in competition with continental models, and the new Valor Valorflame; but we are in no doubt that it has deterred manufacturers' own research and development.

13.24. As far as marketing is concerned, the amount of advertising of appliances directly undertaken by manufacturers is meagre in comparison with most domestic electrical appliances. It is also small in comparison with the contributions appliance manufacturers make towards the cost of the Corporation's own national and local sales campaigns, which stress the merits of the fuel more than the consumer appeal of the contributing companies' appliances and brand names. The brand image is thereby much weakened.

13.25. The Corporation has reserved, and occasionally exercised, a right to make its own cost audits, but when price increases have been proposed it has usually accepted manufacturers' own assessments of costs together with a modest allowance for profit. It has not exercised its buying power to the maximum. Thus there has been only limited competition between manufacturers. All have continued in business, albeit in a less than competitive environment. The market is dominated by one purchaser and at the mercy of its purchasing policy. In these circumstances manufacturers have been more than usually reluctant to commit themselves to invest.

13.26. The Corporation's normal pricing policy is to apply a uniform rate of mark-up for all models of appliance that it retails, though the cost of wholesaling and retailing varies substantially between models, depending on such factors as the size of consignments, the rate of stock turnover and the rate of appliance failure during the guarantee period. This policy may result in manufacturers' failure to reap all the possible economies of long production runs on the more popular, more reliable models, which would be favoured under more competitive conditions.

13.27. We consider that the Corporation's domination of the manufacturers is a contributory factor in the manufacturers' failure to anticipate and meet some recent changes in consumer requirements for appliances. Among these we instance the growing demand for split-level cookers, where the slow response by most British manufacturers, apart from TGA, in recent years has led to the import of Neff appliances by independent retailers and to the import of Scholtes hobs and ovens for the Corporation. The introduction of Chaffoteaux to the United Kingdom market, and its rapid gain of market share, was signal evidence of the home manufacturers' shortcomings in their own market. Whilst the Corporation's policy to date has not been to encourage imports, its sales listing policies make it unusually easy for an importer quickly to gain market strength, as was shown by the case of Chaffoteaux, when an obvious gap emerged for which no adequate British model was readily available.

13.28. It also appears to us that the manufacturers' lack of effort in exporting and the low level of investment which we have mentioned earlier have been due to their short-sighted reliance on a secure home market. Both of these derive, even if indirectly, from the Corporation's policies.

13.29. The manufacturers have, for most of the time, been reluctant to do anything that would disturb their easy relationship with the Corporation. Its new policy in 1974-75, as described in paragraphs 3.5 to 3.13, in particular its introduction of the Superflame agreements and pressures for increased differentials, temporarily caused some tension between them, but this was subsequently assuaged by more co-operative and flexible attitudes, particularly the setting up of the Joint Marketing Committee jointly by the Corporation and the SBGI. In the autumn and early winter of 1979 manufacturers' anxieties were roused when the Corporation halted the promotion of appliances in view of its forecasts that the very rapid growth of domestic demand might render it unable to meet the peak demand for gas in extreme weather conditions. This has caused a marked downturn in the demand for gas appliances generally, and particularly for certain types. Despite the Corporation's later resumption of some part of its former promotion programmes, manufacturers remain apprehensive in the light of this experience about the effect which gas supply policies may have on the demand for appliances and therefore on the prospects of the industry. These events have emphasised the disparity between the interests of appliance manufacturers and the objectives of the Corporation, which is primarily a supplier of gas, and as such is not directly concerned about the supply of appliances. Manufacturers are therefore concerned that there should be fuller and earlier consultation than hitherto.

13.30. Manufacturers' spares supply systems are adapted to the requirements of the BGC, but do not meet the needs of the smaller independent retailer. These arrangements are a natural consequence of one customer having such a large share of the market.

13.31. Finally the Corporation's dominant position has made it almost inevitable that the manufacturers should combine to protect their own interests. For this purpose they have used the Society of British Gas Industries and the Gas Stove Makers' Panel. The details of this combination as actually undertaken

are set out in Chapter 6 of the Report and our conclusions relating to the complex monopoly situations thereby created are given in paragraphs 13.9 to 13.18 and 13.43 to 13.47 of this chapter.

(b) Effect of manufacturers' monopolies

(i) Thorn Gas Appliances

13.32. We have no reason to believe that TGA has been earning excessive profits. TGA's rate of investment has been rather higher than average in the industry, and it has lately invested substantial sums for cooker manufacture. It has also been more alert in organising itself to meet certain of the new demands emerging, notably in developing the Moffat range to meet the demands of the split-level market. Furthermore, though its export performance to date has not been impressive, it has at least organised itself for this purpose through the setting up of TGA (Exports) Ltd, and has developed an experimental range of cookers designed to meet the particular requirements of the European market.

13.33. We have considered how far its pricing and selling policies have been such as to have an adverse effect on the public interest. This means, in practice, its relationships with its principal customer, the Corporation. TGA co-operated as fully as other manufacturers in the policies which the Corporation introduced in 1973 and the following years. Its increases in differential against independent retailers were comparable with those of other manufacturers, and it reached agreement with the Corporation that the bulk of its Main cookers (this brand is the brand leader) should be Superflame models. We have received numerous complaints by independent retailers that they have been, and in some cases still are unable to obtain reliable or prompt deliveries of TGA appliances, and this seems to indicate that the company gives the Corporation first call on its production. On the basis of the figures in Appendix D, throughout the period 1973 to 1979 the proportion of TGA's sales of cookers in Great Britain which were made through the Corporation has fluctuated between 86 per cent and 90 per cent, which indicates that the proportion sold to independent retailers has shown very little, if any, increase.

13.34. TGA recently spent substantial sums on modernising and expanding its capacity for the production of cookers. In view of its previous position in the cooker market and this recent investment TGA will be much the strongest of the manufacturers. At first sight this might appear to make it easier for TGA to resist the Corporation's dominance. On the other hand the loss of the BGC's goodwill could have an even larger impact on TGA's profits than before. The company, indeed, told us that a relatively small loss of business with the Corporation could wipe out its profits and that it could not be expected to jeopardise its commercial success by flouting the wishes of its principal customer (paragraph 10.2). This comment, together with the evidence offered by the company's past behaviour, suggest to us that it is quite unwilling, despite what is said in paragraph 10.16, to accept any real risk to its relationship with the BGC in the interests of wider sales through other outlets.

13.35. We find it a matter for regret that TGA has not felt itself able to adopt a more independent role, particularly in relation to sales to other retailers. It could have used its power as the largest supplier with considerably more effect than it has. Indeed, it seems to us that its failure to show leadership in this matter has been a pattern of conduct supportive of the Corporation's monopoly.

13.36. Accordingly we consider that the monopoly position enjoyed by TGA under the terms of section 6 (1) (a) of the Fair Trading Act in the supply of gas cookers has operated against the public interest in that the company has, by its pricing and selling policies, acted in such a way as to uphold the monopolies enjoyed by the Corporation in the supply of gas cookers and to discourage the growth of independent retailers.

13.37. Turning to instantaneous water heaters, it is a matter for regret that TGA failed to increase its market share despite the difficulties encountered by TI (Radiation/Ascot) in the water heater market. Both these firms have encountered production and other difficulties in introducing new models to comply with the new European standard. This has facilitated import penetration. However, in the rather different circumstances obtaining in the sales of these appliances, we have no evidence to lead us to the view that TGA's monopoly position has operated, or is to be expected to operate, against the public interest, and we conclude accordingly.

(ii) *Chaffoteaux Ltd*

13.38. We have considered whether the scale monopoly in the supply of gas instantaneous water heaters enjoyed by Chaffoteaux has operated or is likely to operate against the public interest.

13.39. We have found no evidence that the level of profits earned by the United Kingdom company, or those earned by its French parent, Chaffoteaux et Maury, by reason of its transfer pricing policies in relation to sales in the United Kingdom, has been or become excessive as a result of its monopoly position.

13.40. We have also found no evidence that Chaffoteaux sales or pricing policies as regards the Corporation and other retail outlets have been discriminatory.

13.41. The figures in Appendix A show the speedy rise in its market share enjoyed by this company. The circumstances are explained elsewhere in this Report and seem to us to indicate that a gap had developed in the range of products available to the consumer and that Chaffoteaux, with the help of the BGC, took quick and effective steps to fill it. It reflects credit on Chaffoteaux in that it had a good product available and the production resources, both in France and in England, to meet efficiently sudden increases in demand.

13.42. Accordingly we find that the monopoly position enjoyed by Chaffoteaux Ltd under the terms of section 6 (1) (a) of the Fair Trading Act in the manufacture of gas instantaneous water heaters has not operated and is not to be expected to operate against the public interest.

(c) Effect of the complex monopolies

13.43. In paragraph 13.16 we set out our conclusions that complex monopoly situations exist in respect of each of the three classes of reference goods and that these operate in favour of the members of the Society of British Gas Industries and of the Gas Stove Makers' Panel.

13.44. We have noted the pressure exercised by the Corporation as monopoly retailers, and refer in paragraph 13.31 to the inevitable reaction of combination on the part of the manufacturers. We are satisfied that their discussions relating to the levels of differentials did not amount to an agreement, and that they acted independently, though conscious of the sense of these discussions. In this sense, the increase of the period of notice was also an individual decision of each manufacturer. In both cases the manufacturers' course of action seems to have been one of subservience to the pressure exerted by the Corporation. It served, at least in the former case, to increase the Corporation's power as monopoly retailer and to limit the competition of independent retailers.

13.45. In the case of the discussions on the entry of the Co-operative Wholesale Society it appears that their object was that manufacturers could agree collectively rather than individually whether they would be willing to sell to it. On this occasion they were concerned to maintain, as nearly as possible, a united front, if necessary against the Corporation. They do not appear to have reached decisions jointly on the level of prices or discounts to be offered to the Society.

13.46. In view of the foregoing, we further find that these complex monopoly situations have operated contrary to the public interest in that they have tended to restrict competition and that they have served to support and enhance the monopolies which we have found to have operated in favour of the Corporation.

13.47. We find, as set out in paragraph 13.31 of these conclusions, that a measure of combination between manufacturers was an inevitable consequence of the monopolies held by the Corporation. We make no separate recommendation in respect of these complex monopolies because we hope that the recommendations made hereafter in this Report will modify the monopolies held by the Corporation and thereby remove the circumstances which have led the appliance manufacturers to combine together in this way. If so, the detriment to the public interest will also be removed.

The Public Interest—British Gas Corporation

(a) Its involvement in retailing

13.48. The Corporation's main business, that of the supply of gas by piped main, has been increasingly profitable in recent years. Its total revenue from gas sold rose from £810 million in 1973–74 to £2,524 million in 1978–79, representing an increase in terms of the quantity of gas sold from 11,487 million therms to 15,934 million therms. The Corporation's profits rose from £106.3 million in 1973–74 to £607.9 million in 1978–79 before charging supplementary depreciation. The Corporation's gross revenue from its sales of reference goods increased

from £63.1 million in 1973–74 to £174.5 million in 1978–79, and trading results on the appliance marketing account (which includes some non-reference products) improved from a loss of £3.0 million in 1973–74 to a profit of £10.1 million in 1978–79.

13.49. From the first the retailing of gas appliances seems to have been conducted predominantly by the gas supply undertakings. The Area Boards set up under the Gas Act 1948 inherited showrooms and similar premises from the undertakings that existed previously and like them had the power to retail appliances. From then until well into the 1960s gas as a fuel was losing market share to electricity and we are told that by then private retailers had become even less disposed than before to sell gas appliances. When the British Gas Corporation was set up under the Gas Act 1972 it in turn was given the right to retail appliances, took over the showrooms of the Area Boards and succeeded them as the principal retailer of reference goods.

13.50. The Corporation has always attached importance to the retention of this dominant position for several reasons. It wishes to safeguard its investment in showrooms and to maintain the security of employment of the staff concerned. Although in the Corporation's view the value of gas showrooms extends beyond the sale of appliances, a loss of share in the retail market would make it increasingly difficult to justify the level of investment currently committed to them. This would, in its view, have wider repercussions on showroom activities and more generally on the Corporation's cash flow, its public relations and its work in energy saving.

13.51. The Corporation has always been concerned to build up the demand for domestic gas. For this purpose it is also concerned to ensure the supply of gas to new houses and the availability of domestic gas appliances. This demand accounted in 1978–79 for 58 per cent (by value) or 50 per cent (by volume) of all its gas sales. It has identified this objective with its own appliance retailing activities. The Corporation also attaches importance to the knowledge of the future demand for gas which it infers from the demand for appliances. Further, it considers that as a result of its involvement in the installation of most of the appliances covered by the reference it is able to exercise a more effective control over safety.

(b) Strengthening its position—1973 and after

13.52. Early in its life the Corporation took stock of its competitive position chiefly *vis-à-vis* electricity, in the appliance sector. The gas industry is keenly aware that electricity has certain intrinsic advantages in its cleanliness, the need for built-in electricity supplies in all houses, the wider range of electric appliances on the market and, in some measure, the lower basic cost of electric against the most nearly comparable gas appliances. When, as in 1973, the prices of electricity and of gas were (despite the coming of North Sea gas) closer in terms of useful heat values than was the case later in the decade, the use of electricity for cooking had evident appeal. In that year the number of gas cookers sold fell

away sharply and was overtaken by the number of electric cookers sold, and in particular some 70 per cent of first-time buyers chose electric cookers. The Corporation saw this as a major long-term threat to its position since it regarded houses which did not use gas for cooking as unlikely to have any other use for gas.

13.53. At about the same time independent retailers began to take more interest in the gas appliance market, chiefly in the North-West, North-East and West Midlands Regions. The Corporation told us that in 1973–74 13 per cent, 12 per cent and 15 per cent of cookers, and 36 per cent, 30 per cent and 20 per cent of space heaters sold in these three regions respectively were sold by independent retailers. It saw this as a further threat to its share of the retail market, and therefore to the gas industry, which had urgently to be combated.

13.54. To meet the situation the BGC introduced a number of new policies. One of these—the ‘sales-listing’ of selected models (paragraph 3.5)—was adopted in order to rationalise the range of models produced and offered for sale. Another new policy, introduced in 1975 (paragraph 3.6) was that of the Super-flame contracts. It is clear to us that from 1973 onwards the Corporation was also putting strong and largely successful pressure on manufacturers to increase the differentials between their prices to BGC and to other retailers, and that this pressure was maintained throughout the years 1973 to 1977. Details are given in the table at Appendix E, which show that over these years differentials tended to increase with the result that the minimum differentials for 1979 were almost always higher, in many cases 100 per cent higher, than those for 1973 and 1974. This increase was particularly marked in the case of new models since the Price Code controls limited the increase most companies could secure for existing models over these years. We are satisfied that these increases of differential were made by manufacturers in deference to the Corporation’s pressure. The inevitable effect of these changes was that independent retailers, whose financial resources and level of sales did not enable them to buy in quantity and thereby earn discounts, were much impeded in offering effective competition to the Corporation.

13.55. Somewhat more aggressive tactics were locally employed in some Regions (perhaps without authority from BGC Headquarters). We have been told, for example, that specially low prices have been offered in areas where independent retailers’ competition was proving troublesome to the BGC; one retailer has reported that local showroom staff have attempted to undermine public confidence in his competence. We have seen evidence from manufacturers that in some Regions they were told that it would be against their interests to deal with independent retailers, since such dealings could lead to sanctions at local level such as the relegation of their appliances to the less prominent positions in the Corporation’s showrooms.

13.56. We accept that the primary strategy of the Corporation was to maintain the sales of gas against the competition of electricity. None the less, the tactics it used to achieve its strategic objectives, coupled with the aggressive

trading of Regions, deterred manufacturers from giving independent gas retailers equitable treatment, even in respect of those appliances which they were not precluded from selling under the Superflame agreement, and thus weakened the position of these retailers.

13.57. These pressures contributed to the substantial reduction in the number of independent retailers of gas appliances shown by the evidence of the Builders' Merchants Federation (paragraph 8.9) and that of BIGAR (paragraph 8.6). Gas Trend was the most substantial survivor, but was taken over by Comet in 1974. This enabled Comet to operate a national discount retailing service in gas appliances through its showrooms, although with only a limited range of models for sale. No other national retailer entered this market until 1978, after the date of this reference.

(c) Employment

13.58. The Corporation has a stable, loyal work force whose terms and conditions of employment, pensions and extensive training and promotion opportunities are the subject of collective agreements and joint consultation. Of a total of 103,000 we were told that some 3,500 are employed in nearly 1,000 showrooms but that their work in these showrooms is reflected in the job content of many others, engaged in installation and testing, supply accounting, administration, research and development and standards work. The TUC suggested to us that, if the BGC were excluded from retailing, 25,000 to 30,000 jobs would be placed at risk. This appears to us to be an extremely high estimate unless the risk being assessed is that of a change in the content of jobs as well as that of job loss. We accept that if there were a major reduction or a cessation of appliance retailing by the BGC the continued employment of a proportion of its showroom staff would be in question unless other showroom activity increased. Some installation and other staff could also be affected and their skills and experience in appliance work lost to the public even if they were successfully redeployed within the BGC rather than being made redundant. In terms of total job opportunities it is to be expected that there would be some offsetting increase in private retail employment, if the sales of gas appliances were sustained by that sector, and in the transport of these goods, although it is unlikely that the terms of employment, training or career opportunities would be comparable to those in the BGC.

(d) Adverse effects of the BGC monopoly

(i) On manufacturers

13.59. We have set out in some detail in paragraphs 13.22 to 13.31 our views of the consequences to manufacturers of the BGC's power over them. A large part of this power was the consequence of its position as monopoly buyer of gas appliances from the manufacturer, and as monopoly retailer to the public. To summarise, we are left in no doubt that these monopoly situations have largely contributed to the manufacturers' lack of investment, inadequate commitment to technical or market research and development and failure to promote exports. The manufacturers accepted a position of subservience to their chief customer save to the extent that they combined in ways which were restrictive of competition, as mentioned earlier in this chapter.

13.60. We have also noted in paragraphs 13.32 to 13.36 that TGA, the largest manufacturer, adopted a pattern of conduct which supported the Corporation's monopoly. This degree of co-operation between the two added to the difficulties faced by such other manufacturers as might have been disposed to undertake a more independent policy.

(ii) *On other retailers*

13.61. The BGC pressed manufacturers for more favourable levels of differentials by comparison with those offered to other retailers in order to give it competitive advantages. These advantages were seen by the Corporation as warranted by the size of its orders and the special services which it offered to the industry as a whole, notably in technical services, market research and promotions. While we do not doubt the value of these various services to the manufacturers, we consider that they should be paid for by means of specific payment to the Corporation for these services, and not by means of price differentials in favour of the Corporation. Such payments would fall to be recovered, like other overheads, by the adjustment of prices charged to all customers for the models which benefit from these services, in so far as competition between manufacturers allows. They would differ in this respect from price differentials, which restrict and distort competition between the Corporation and other retailers.

13.62. For the Corporation the retailing of gas appliances is a minor activity in terms of capital employed, volume of sales and of profits earned. It is conducted from showrooms which have other functions to perform, notably the receipt of monies due from the sale of gas. It was recognised at the time that the Corporation was set up that this connection between the statutory monopoly of selling gas and the commercial service of selling appliances lent itself to the cross-subsidisation of the latter from the profits of the former. Accordingly in 1971 the Chairman-designate of the Corporation agreed to the request of the then Minister of State for Industry to publish separate accounts for the sale of gas, for appliance marketing and for installation and contracting.

13.63. In the Corporation's consolidated trading and profit and loss account, and in its consolidated statement of trading costs, separate figures are given for these three accounts. The sale of gas account, however, is so much the largest of the three (in 1978-79 representing 85 per cent of turnover for the Corporation as a whole) that the other two accounts have little impact on the Corporation's overall financial results. The allocation of many costs, and particularly of showroom costs, between them is a decision which ultimately depends on subjective judgment. For example showrooms are used not only to exhibit appliances but also to collect gas accounts, and when field salesmen sell appliances they also thereby increase the sales of gas. Nevertheless we find it surprising that advertising should be charged entirely to the sale of gas account when appliances feature prominently in the advertisements, and also that only 25 per cent of the costs of premises should be allocated to the appliance marketing account irrespective of the amount of space which appliances occupy in the

showroom. The choice of allocation made by the Corporation appears to us to be unduly influenced by the Corporation's belief that the promotion of appliances is also, or even primarily, the promotion of gas and so should be largely allocated to the sale of gas account.

13.64. Whilst it is impossible for an allocation of costs to be precisely accurate, in our judgment the allocations made in drawing up the appliances marketing account amount in effect to subsidies from the sale of gas account. Hence private retailers compete with the Corporation from a disadvantaged position except in so far as they might cross-subsidise the sales of gas appliances from their other activities.

13.65. The effect of the Superflame scheme was after 1975 to deny retailers other than the Corporation the right to stock many of the up-to-date cooker models in current production, and also some space heaters. These retailers, thus limited to relatively narrow ranges consisting chiefly of older models, were unable to compete effectively with the BGC. Many of them also complained that manufacturers imposed on them increasingly long delays before meeting their orders even for models which in principle were available. We have noted however that the Superflame system is being phased out and that some retailers—though not all—say that deliveries have improved in the last two years.

13.66. The Corporation sees itself as competing in the energy market and has stressed throughout that it regards electricity, and to a lesser extent other fuels, as its competitors, and that healthy rivalry between them is, on the whole, in the public interest. The Corporation sees itself as necessarily the central point and the flag-bearer of the whole of the gas industry in this rivalry. In doing so, the Corporation has been, in our view, perhaps too ready to see independent gas appliance retailers not as allies but merely as 'discount houses and corner shops', with no long-term commitment to the prosperity of the gas industry as a whole, which might lightly drop the sale of gas appliances for other more profitable lines of business. We see this as unjust to small independent gas specialists, for example the members of BIGAR, whose skills and livelihoods are as closely bound up with the industry as are those of the Corporation's own employees, and less than fair to such major retailers as Comet, the Co-operative movement, Currys and Trident which have entered into this field of activity.

(iii) *On the consumer*

13.67 The consumer has suffered from the fact that the Corporation has become in practical terms the sole decision-taker. Even if all its decisions have been prudent and public-spirited (and we have no reason to doubt that over the entire field of its activities the majority have been both) they are no adequate substitute for the choice provided in a competitive situation. A more satisfactory method of establishing whether the Corporation's judgment of the consumer's wishes is in fact correct would be the test of the market. Such a test could only exist if there were other significant and independent sources of supply for gas appliances, but this benefit has been denied consumers by the Corporation's power over manufacturers and its dominance of the retail market. It seems to us that in this respect the National Gas Consumers' Council has been of very little value as a spokesman of consumers' wishes.

13.68. By comparison with the market for electrical appliances, where numerous different classes of outlet exist in competition with the Electricity Boards' showrooms, there has, at least until recently, been very little competition, and none at all over much of the country. Even now other retailers account for only about 9 per cent of cooker sales and as yet only offer a limited range of appliances. The Consumers' Association, writing in 1976 before the entry into this market of the Co-operative Societies, Currys and Trident, also commented on the limited range of price variation among gas appliances by comparison with electrical appliances—a predictable consequence of this pattern of retailing.

13.69. With only minor exceptions, the consumer's range of choice is limited to the appliances the Corporation chooses to sales-list. It lists imported products only when in the view of the Corporation they meet a requirement which no available home-produced model can fill. Private retailers are too small to stimulate the production of other models at home or to launch other foreign products in competition with the BGC list.

13.70. It is not possible to judge with any degree of certainty what the level of prices payable by the consumer would have been had there not always been a monopoly in the hands of the sellers of gas. The immediate effect of the financial support now given to the showrooms might appear to be that selling prices in the showrooms have been kept below what they would have been if a proper proportion of the actual selling expenses had been passed on in prices. Additionally, the differentials obtained by the BGC might be expected to enable it to sell appliances at prices lower than would otherwise have been possible. The independent sector, however, although buying appliances at prices higher than the BGC, already sells at prices below—and sometimes substantially below—the standard prices charged in BGC showrooms. If such a cost-conscious independent retail sector had been larger, it is reasonable to suppose that it would have been able to sell to the public at margins at the least competitive with the present margins of the gas showrooms.

(e) Compensating advantages of the BGC's monopoly

13.71. The Corporation has suggested that the domination of the retail market which it enjoys in the United Kingdom offers substantial practical advantages. One of these advantages, it was put to us, was the control over peak demand growth which control over appliance sales gave. It seems to us that a retail monopoly of sales of new reference goods gives the Corporation very little control over the total demand for gas in peak periods of consumption. By now about three-quarters of gas central heating installations are sold by the private sector. Gas central heating is estimated to consume over 60 per cent of the total domestic consumption of gas in households using gas for all main cooking and heating functions, and therefore knowledge of the future demand for gas derived from the sales of reference appliances must be inadequate.

13.72. Another consideration put by the Corporation is that of safety. Lapses from proper standards of care in installation, whether of gas mains, carcassing or appliance connections, bring with them serious risks of damage to life and property. The Corporation has maintained a high level of respon-

sibility and a change of practice which led to the adoption of lower standards would not be acceptable. It is normal, though not obligatory, for appliances (other than central heating) sold by the Corporation to be installed by it. The standards maintained by private installers can never be fully policed and therefore, it has been suggested, a wider use of private retailers and hence of private installers would put at risk the present high safety standards of the gas industry. However, the purpose of CORGI is to maintain satisfactory levels of competence among installers, and there is no evidence that gas central heating installations are less safe because they are normally installed by private sector firms. All the national chains which have to date expressed an interest in selling gas appliances have established permanent contacts with, and recommend the use of, registered CORGI installers.

13.73. The Corporation provides a large and stable national network of retailing and advice centres at its showrooms, and a reliable installation service for appliances bought there. These showrooms operate as points of contact with the public, and the Corporation might judge it necessary to maintain a similar network even if it did not sell appliances. It is probable that if the Corporation did not have its present monopoly of the sale of appliances, or its accounting were more rigorously controlled, it would have to review the justification for maintaining the present number of showrooms. Were a decision reached that the level of provision should be reduced, there might well be a perceptible loss of benefit to the public at large in that those services currently available and used would be replaced by less adequate services.

13.74. The fact that 90 per cent of sales go to an organisation with an established system of distribution points to serve their showrooms probably reduces the total cost of the distribution of appliances.

13.75. Finally the Corporation's showrooms offer specialist advice on gas conservation. It is not to be expected that independent retailers, whose activities must be profit-oriented, would take as objective and dispassionate a view as the showrooms in weighing the merits of different appliances from the standpoint of gas conservation.

(f) The effect of the Corporation's monopoly on the public interest

13.76. We consider that the Corporation exercises excessive control over the conduct and performance of the gas appliance industry. The Corporation is, in its capacity as dominant retailer, the principal arbiter of the models to be offered to the public. We find that the manufacturers of appliances are unduly subservient to the Corporation in that their designs give undue weight to the Corporation's views of the marketability of certain characteristics (eg eye-level grills and electronic ignition). They accord delivery and price preference to the Corporation and are so heavily dependent on the Corporation's marketing of their appliances that a change of its market policy has serious effects on their whole prospects. An indirect effect of this degree of control has been that the industry's export performance has been poor. It has also been a prime cause of conduct in restraint of competition within the industry. We conclude that

the level of dependence on the Corporation into which the appliance manufacturers have fallen restricts competition between them by reducing incentives to improve efficiency and thus depressing investment. This in turn deprives consumers of the advantages of competition and so operates as a further disincentive to efficiency.

13.77. The Corporation's domination of the retailing of these appliances also had the effect in the period up to 1978 of restricting competition in retailing. We have already referred to the Corporation's successful insistence that manufacturers should increase price differentials in its favour and to the detriment of competing retailers, to the implementation of the Superflame scheme, to the Corporation's insistence that manufacturers should accord delivery preference to its orders and to occasions when the Corporation cut prices to meet or beat retail competition which it saw as a threat to its own position. Many smaller retailers thereby found themselves unable to compete. For the buying public the effect of these practices and activities has been to limit the number of independent outlets supplying gas appliances, and thereby to suppress competition, to limit consumer choice and possibly to increase the price of appliances.

13.78. We must also take into account the Corporation's conviction that, in the allocation of costs, appliance marketing is inextricably linked with promoting the sales of gas. The consequence is that some costs which, if incurred by an independent retailer, would have had to be regarded as costs of selling appliances have been regarded as costs of selling gas. This difference in the basis of calculating costs distorts competition between the Corporation and independent retailers.

13.79. In our view it would have been in the longer term interests of the gas industry as a whole, and of the public, if the Corporation had treated independent retailers as allies by encouraging their participation in the industry. The sales of electricity appear to have benefited from the activities of private retailers of electric appliances.

13.80. However it appears that the situation is now changing. There are few smaller retailers and builders' merchants who sell a substantial range of gas appliances, but their number now appears to be increasing slowly. Among the larger retailers, Comet entered this market in 1975 and has stayed in it. Since the date of our reference certain large Co-operative Societies, Currys and Trident have also entered the market on a trial basis. So far their market share has remained very modest. We have also noticed some change of the Corporation's attitude towards independent retailers, particularly in the period since this inquiry was set up. The Superflame scheme which gave it exclusive rights to many of the newer appliance designs is being phased out. There has been a reduction in the number of complaints from retail competitors about the Corporation's retailing tactics. Many, though not all, independent retailers report better deliveries of appliances from most manufacturers. The larger independents are gaining better terms from manufacturers.

13.81. We are not for our part able to judge the reasons for these developments. We do not know what the effect has been of such considerations as the existence of this inquiry, and the Corporation's cutback in promotional activity in the autumn of 1979. Something may even have been due to personal factors within the Corporation.

13.82. The Corporation itself has not acknowledged any essential rethinking of its retailing policies. Indeed it has offered us several reasons why it is loath to accept a substantial reduction of its involvement in retailing. It therefore seems to us premature to judge from the current situation that the Corporation will be content to yield retail market share to independent retailers. We cannot ignore the possibility that the Corporation may be tempted to employ again some of the commercial tactics which we have criticised. At present the independent sector is not well enough established to combat them effectively, but if the independents held a firm and substantial share of the market these tactics would no longer be capable of effective use.

13.83. We consider that the British Gas Corporation is a monopolist in relation to the retail supply of the gas appliances specified in the reference under the terms of section 6(1)(a) of the Fair Trading Act and further that the Corporation's exercise of these retail supply monopolies has operated and may be expected to operate against the public interest. The particular effects which we found are as set out in paragraphs 13.76 to 13.78.

Recommendations

13.84. It must be acknowledged that the present practices of the Corporation have provided the public with a nationwide retail and advice service which the public has found of high value and which has concerned itself, to the great advantage of all, with ensuring that the supply of gas is safe. Nevertheless we discern in particular two overriding defects in the present situation. Of these the first is that the public is losing the benefits of competition, and thereby that we cannot know whether or not the Corporation's retailing system is indeed cost-effective or whether it provides a range of appliances meeting consumer demand at the cheapest price. The second is that the present retailing system threatens the longer-term efficiency and viability of the appliance industry.

13.85. In assessing the need for remedial action we first considered the possibility of making no recommendation for a structural change, but of relying on the continuation of the recent improvements in the industry which we outlined in paragraph 13.80. The situation which was the cause of the reference being put to us, and gave rise to the complaints which we received, has been in some measure remedied. There are important new entrants into the retail sale of gas appliances, and a more satisfactory competitive structure appears thereby to be emerging in the retail industry. At the same time we find that the Corporation has relaxed the policy of centralisation which led to its disturbingly monolithic attitude of a few years ago, so that each region now has a measure of independence in its dealings with appliance manufacturers. There is also more investment in the manufacturing sector.

13.86. It may therefore be suggested that we should make no recommendation for early action in the expectation that these tendencies will spread more widely through all sectors of the industry, and that thereby the necessary benefits to the consumer will be achieved without further intervention. Action should only be taken if this hope is not fulfilled. However, we have explained elsewhere why we cannot count on the Corporation adhering to its present more relaxed policy. The present level of sales by private retailers is very small, and there can be no certainty whether all the national retailers who have lately entered this market would stay in it if pressures such as were imposed by the Corporation in recent years were to be renewed. It is also only too clear to us that there has not been sufficient evidence of a change of outlook on the part of manufacturers, and in particular of TGA, the largest manufacturer. In these circumstances we cannot feel it prudent to count on the continued progress of these favourable developments.

13.87. We have considered how the present positions may be improved. In particular we have looked at three possible changes. The first of these is that the Corporation should discontinue its retailing functions and that the retailing of gas appliances should become exclusively a private sector activity. A second possibility is that the Corporation's retailing activities should be transferred to one or more distinct or virtually distinct bodies which should be separately accountable. The third approach would be to seek more fully to achieve and to take further the objective of the Department of Trade and Industry in 1971 when it was decided that the Corporation should publish separate accounts for its appliance retailing and installation and contracting services. It might be possible to achieve this original objective more effectively by means of more precise directives setting out different and clearer arrangements for the allocation of costs and for the Corporation's accounting system, but leaving the retailing activities in its own hands, as was agreed in 1971.

13.88. We now turn to the first of the possible courses of action, that the Corporation should cease to undertake retailing functions, which would be left exclusively to the private sector. This would be achieved either by the repeal of the powers granted to it under section 2 of the Gas Act 1972 to carry on retail business or by a requirement that this activity should be discontinued.

13.89. We see no reason why the vigorous distribution sectors of the economy should not adapt themselves to such an opportunity, so that the bulk of the public would be served as well as or better than hitherto. A period of, say, three years would be needed for the implementation of the new system, at the end of which the Corporation's retailing activities would be discontinued. During this time the Corporation's showrooms would still undertake retail sales, though these activities would be run down. At the same time the resources of the retailing industry would be brought into play to develop, in co-operation with the manufacturers, a stocking and distribution system for appliances and spares alike. This would, we hope, include a wholesaling service for such smaller retailers as needed it. The economies which result—as already indicated by independent retailers' prices—from using the same shop or department for the sale of gas appliances and other products should of themselves tend to reduce prices to the consumer. The forces of competition should intensify this effect.

13.90. It also seems clear to us that this competition could inject new energy and initiative to the appliance manufacturing industry so that it could best develop new products to meet the needs of the consumer. A competitive home market is in our view that most likely in the long run to produce a manufacturing industry capable of competing successfully in world markets.

13.91. As we have explained previously, the present pattern of retailing in the gas appliance industry has developed solely for historical reasons. We do not know of other countries where this system is followed. We are, at the same time, very much aware of the problems that would be created by such a radical change of policy as the cessation of the Corporation's retailing.

13.92. It has been represented to us that this proposal would leave the Corporation without that knowledge of demand for gas and the ability to regulate it through its sales policy which it has gained in its role as retailer of appliances, and that this would adversely affect its planning of gas supplies. As mentioned in paragraph 13.71, we do not attach much value to these benefits, since they apply only to about a quarter of the total sales of gas, and only to about half the sales of gas to the domestic sector.

13.93. The Corporation and the unions are concerned about the risk to safety in the event of this policy being adopted. We have received evidence that independent retailers are concerned to maintain the same high standards of work as those of the Corporation and are assured that they strongly encourage the use of CORGI-approved installers so far as is possible. However, if there is an increase in the number of independent installers it would be desirable that CORGI's resources should be increased and the training facilities of those installers improved. The Corporation's own technical resources from the main to the meter would remain unaffected by the proposed change, and if it thought it a prudent and economic use of manpower it could continue to provide its own competitive installation service within the house and enter into contractual arrangements with other retailers of appliances.

13.94. We appreciate the inevitable anxieties and uncertainties that a decision to withdraw retail selling from the showroom would cause to its staff. Almost certainly (unless other showroom business were substantially increased) there would be some loss of employment. A number of other jobs might also change and some be lost. We would hope that any reduction in staff would be achieved through natural wastage and not by redundancy. A certain amount of extra employment in private retailing and transport would be generated if appliance sales were maintained outside the BGC although the quality and prospects of these jobs would probably not match those lost.

13.95. Though the Corporation has emphasised the importance of the showrooms' non-retailing activities, the discontinuance of retailing might lead to the closing of some showrooms, and thereby the lessening of their functions as centres for advice on energy saving. If so, this would be a loss to the public. It is also likely that showrooms with only a modest turnover might be closed, but that the towns where they were located might not have enough trade to

offer to attract alternative retailers of substance with large stocks. Hence, such towns would lose by the closing of their local gas showroom both its advice centre functions and the wide range of stock it held, without any evident offsetting benefit.

13.96. Finally, independent retailers are unlikely to commit substantial resources and goodwill, and particularly the necessary investment in specialised staff training to a market the future of which is uncertain, at least in the medium term. It is not part of our task to look into longer-term issues of energy policy, and we therefore express no views on the likely demand for and supply of gas in the next century, but this is of great importance to manufacturers in their investment programmes and of substantial importance to retailers.

13.97. A second possible solution which we have looked at in some detail would be the transference of gas showrooms, along with all the Corporation's retailing activities, to a completely or substantially distinct organisation, or a group of regional bodies, with separate accounting. This body or bodies might either be independent of, or alternatively might remain formally subsidiary to, the Corporation, though rigorously organised as a separate profit centre or centres. Gas showrooms could thereby continue their present range and level of activities on the basis of arm's length agreements between the managements. This would avoid disturbance to them and their staffs, and meet the public demand for these services.

13.98. Any such arrangement would have substantial disadvantages. In the first place, a single retailing body, so long as it retained anything approaching the Corporation's present share of the retail market, would also retain much of the excessive influence over manufacturers that the Corporation has today. It would also still be able to use that market strength for several forms of unfair competition were it disposed to do so. Even were it to be commercially successful it might offer no benefit to the public over the present system and would therefore fall considerably short of the main objectives which we have in mind in making our recommendations.

13.99. On the other hand, there seem good reasons to doubt whether any such successor body, whether unitary or regionally based, would be likely to be successful. In particular we are very doubtful whether the range of goods currently offered for sale by gas showrooms (even perhaps supplemented by other goods which they might be thought able to sell under the Gas Act 1972) is sufficient to make a viable range for such a national chain of retail stores to sell profitably. The average turnover obtained by gas showrooms is substantially less per showroom or per employee than that earned by comparable retail groups. This solution must also present substantially greater administrative problems than the present arrangements: whether or not the new bodies were fully independent, the reaching of agreement on an arm's length basis between the bodies concerned, and the maintenance of proper management accountability and discipline in the face of divided loyalties within the showrooms, would both be matters of great difficulty.

13.100. Our conclusion therefore is that such a new organisation, even if it were to succeed (which we consider unlikely), would probably not further our wider aims of introducing competition within the retail market and of creating a setting in which the gas appliance manufacturers would recover true independence. We therefore do not recommend this, in any of its forms, as a desirable solution.

13.101. The third option is a modification of the Corporation's accounting and other procedures with a view to reducing its power in the retailing sector and thereby its influence over manufacturers. As we have mentioned earlier, when the Corporation was set up the Ministers of the day were anxious to ensure the development of a healthy private retailing sector competing on fair terms with the Corporation in the sale of appliances, but the course of action which they recommended, and the Corporation followed, did not have this effect. Indeed the Corporation regarded the obligation placed upon it to achieve a profit on the appliance marketing account as a justification of those aspects of its retailing policy which we criticise in this Report.

13.102. We have considered whether it would be possible to draw up new and more precise requirements designed to reduce the Corporation's dominance by restricting its use of its monopoly power and its ability to subsidise appliance selling from the profits of gas sales. Our first objective would be to ensure that no discrimination was made by manufacturers between the prices which they charged to the Corporation and those which they charged to other retailers taking delivery of comparable loads. We do not question the propriety of economically-justified differentials, but it would be necessary to ensure that no exclusive selling deals such as those made under the Superflame scheme, or other arrangements by way of special discounts, whether for services rendered by the Corporation or otherwise, were permitted so long as the Corporation retained anything like its present market dominance. The second objective would be to ensure that the Corporation's accounting policy on the allocation of costs, particularly of showroom costs, between its sale of gas and appliance marketing accounts eliminated the possibility that shared overheads and other costs whose allocation was discretionary would be made to fall entirely or largely to the sale of gas account.

13.103. We envisage that these requirements might be on the lines set out in Appendix N. They would consist of two parts: of these the first would be prescribed obligations on selling and buying prices applicable both to the manufacturers and to the Corporation. The second on profitability would apply to the Corporation only and would include certain matters required to form part of its statement of accounting policy. If this suggestion commends itself to Ministers the Director General of Fair Trading might seek appropriate undertakings from those manufacturers of reference goods found to be parties to the complex monopoly situation as set out in paragraph 13.18. Failing this agreement, the Minister could use his powers under the Fair Trading Act 1973. Those obligations which would be imposed on the Corporation, including the statement of accounting policy, should be the subject of arrangements between it and the Secretary of State. The Corporation's auditor would, in his annual certificate, set out his view of how far the Corporation had conformed with

those provisions of the statement of accounting policy which are referred to above, and his view of the adequacy of the supporting documentation. This machinery would seem to us to offer sufficient assurance that the proposals of Section B of Appendix N were being met, but it would be less adequate in relation to the proposals of Section A. The right of investigation set out in A (4) of that paragraph is therefore of particular importance.

13.104. The object of these proposals would be to reduce the Corporation's share of the retail market, so that the share of independent retailers may grow. The effect in particular of the requirement that there should be a commercial level of profit on turnover linked with the other constraints, is likely in practice to be that a measure of advantage in price competition in the market is gained by the Corporation's competitors.

13.105. By virtue of these proposals, the total volume of retail sales might over a few years come to be less unequally divided between the Corporation and other retailers. This is necessary, in our view, for the health of the industry. The necessary minimum which should come to be in the hands of other retailers is difficult to quantify. But the Secretary of State, once he was satisfied that a sufficient share of the market had been securely achieved by the independent sector, might then wish to review these arrangements. A free market in gas appliances would thereby have been created in which competition among manufacturers and among retailers would have been effectively restored to the benefit of the consumer. The Corporation would still be there to compete in meeting that part of the public demand which it can best serve, and it would need to be efficient if it were to retain market share. Hence, even though it might well have to make some retrenchment in view of its smaller share of the total market, it could continue to offer energy advisory and other services to the general public.

13.106. The sales staff, in particular, of the Corporation would find it unwelcome, and to some extent demoralising, to be required over a period of years to reduce the Corporation's share of the market and not fully to exert themselves to contain the increasing share enjoyed by its competitors. The consequent sense of frustration might come to have a wider effect on the Corporation's morale.

The choice between the options

13.107. We believe that in the public interest some action should be taken. We have set out what appear to us to be the possible courses. In our judgment, the choice must ultimately be made between two of these courses—the less radical, as described in paragraphs 13.101 to 13.106, which is to leave the Corporation with its existing powers but subject to new and detailed arrangements designed to secure the financial independence of retailing from the BGC's other activities and fair and effective competition between the BGC and other retailers, and the more radical, as described in paragraphs 13.89 to 13.96, which is to bring the Corporation's retail business to an end. The circumstances of gas appliance retailing make the choice between these courses unusually difficult.

13.108. It may be an advantage of the less radical course that it does not involve an irrevocable decision. If arrangements such as we have suggested were made, but did not produce a satisfactory competitive market, it would still be possible to adopt the more radical course. It might also be possible for the Director General of Fair Trading to exercise his powers under section 44 of the Fair Trading Act 1973 or section 3 of the Competition Act 1980 in order to ascertain whether the suggested arrangements were having the result desired. On the other hand, we are by no means completely confident that the less radical course would produce the fully competitive retail market which we think desirable in the public interest; and the necessity of continued control and surveillance of the retailing of gas appliances is itself to be avoided, if possible.

13.109. The attraction of the more radical course is that it would certainly end the existing monopolies of the BGC in the supply of reference goods and introduce a reasonably competitive retail market. On the other hand, it would do this by breaking up a pattern of retail trade which has existed for many years, and the consequences are not fully predictable. While we consider that the existing situation needs to be changed, we have acknowledged that it has beneficial features, and it is possible that the more radical course might affect some of these.

13.110. Considerable though these difficulties are, if there were no others we should feel obliged to make a choice between these two courses and recommend whichever we preferred. There is, however, another factor. We recognise that, when Ministers decide what course to adopt in relation to the BGC, they may have to take into consideration not only the matters which we have discussed, but also political considerations upon which the Commission does not normally form a view.

13.111. In view of all these circumstances, we do not think fit to express any recommendation between these courses. We have identified facts which in our judgment operate against the public interest, and we have specified the particular effects contrary to the public interest which those facts are producing. We have considered what action should be taken to remedy those adverse effects, and those courses of action which appear to us to be possible. From among these we have selected two which seem most worthy of consideration and have set out the advantages and disadvantages of each. It must be for Ministers, if they accept our view of the effect of the existing state of affairs upon the public interest, to decide which remedy to adopt.

Note of preference by Mr G F Ashford

13.112. I am fully in agreement with my colleagues that BGC's dominance of retailing appliances has produced an undue subservience of the manufacturers and has prevented competition in retailing, leading to a situation which is contrary to the public interest. I also agree that there are only two solutions available for correcting the situation.

13.113. I would, however, only recommend the adoption of the more radical alternative after the less radical alternative had been tried for three years and found ineffective in correcting the present situation.

13.114. In my opinion the immediate adoption of the radical alternative would involve the following disadvantages:

- (a) It would destroy BGC's present appliance marketing organisation which in spite of a number of defects, has probably made a substantial contribution to the appliance industry.
- (b) It would be irrevocable.
- (c) It would destroy a number of jobs and careers.
- (d) It might lead to a difficult three-year interim period coinciding with a period of economic recession, thus making a difficult situation even more difficult for manufacturers.

13.115. The less radical alternative in my opinion has the following advantages:

- (a) It would not destroy BGC's appliance marketing organisation although it would operate on a smaller scale.
- (b) If it fails to achieve the required reduction in BGC's dominance, it would always be possible to fall back on the more radical alternative.

13.116. The less radical alternative has the following possible disadvantages:

- (a) It involves some arbitrary accountancy rules, which may be difficult to enforce.
- (b) Because of these difficulties it may fail to achieve the required reduction in BGC's dominance.

13.117. In my opinion the risk of such failure is not very great, mainly because this dominance is already becoming less. In other words, a trend has already developed which, if reinforced, should lead to the required result. My reasons for this belief are as follows:

- (a) During the last three years BGC has tended to be less aggressive in its attitude to independent retailers.
- (b) Superflame is being phased out.
- (c) BGC has not objected to the differentials in prices between itself and the large independents being substantially reduced.
- (d) As long as BGC's primary objective was to increase the sale of domestic gas, the appliance manufacturers considered their interests coincided with those of BGC, in that BGC would be aiming at an increased sale of appliances in order to obtain their primary objective. The recent change in BGC's policy for domestic gas, as evidenced by the cutback in promotion of appliances, must have convinced the appliance manufacturers that this identity of interest no longer exists and there is an acute need for substantial alternative outlets.

- (e) Recent statistics indicate that for the year 1979–80 while sales to BGC were reduced, those to independents were increased, so that in the case of cookers in particular the independent retailers' share of the market increased very substantially.

13.118. Taking all these points into account, I would recommend the adoption of the less radical alternative for a trial period of three years. If at the end of that period there has not been the required reduction in BGC's dominance, then I would recommend the adoption of the radical alternative. In my opinion it would be evidence (but not necessarily conclusive evidence) that the required reduction in BGC's dominance had been achieved if their share of the total reference appliance market were less than 60 per cent in value.

Note of preference by Miss R Stephen

13.119. I agree with my colleagues that there have been detriments to the public interest in all but two of the monopoly situations we have found.

13.120. Having considered whether these detriments are capable of remedy by any of the courses described in paragraphs 13.85 to 13.87 I also agree that the formation of a separate public corporation to retail gas appliances should be rejected, for the reasons given in 13.99: it might offer no benefit to the public over the present system and so falls short of the Commission's main objective.

13.121. Moreover, while I see a real prospect that the recent improvements noted in paragraph 13.81 and discussed in 13.86 and 13.88 will continue to develop if things are left as they are, I consider that such development will be ensured by the adoption of the proposal for modified accounting and other procedures which we have called the less radical (or third) option and I recommend it.

13.122. In recommending it I would hope for a contribution by the new retailers that might stimulate a growth in market size which would be in the interests of the Corporation as an appliance retailer with a smaller share than at present as well as of the UK appliance manufacturing industry.

13.123. In considering further the 'more radical' proposal to exclude British Gas from appliance retailing, the critical question in my view is not whether a retailing network and an appliance manufacturing industry would continue to exist, in the long term, but whether they would operate with the likelihood of greater or less benefit to the public interest than if no such change were made.

13.124. There was no evidence from any witness, whether retailer, wholesaler, manufacturer or consumer organisation that any of them had seriously contemplated or prepared for the loss of BGC from appliance retailing, installation and maintenance or even appliance specification and design. Our vigorous retail trades have been free, for the last eighty years before the existence of British Gas as well as since, to enter the gas appliance retailing market and for most of that time they have chosen, for whatever reasons, to leave it largely

to the public sector. Since the detriments found in the present situation while significant are neither overwhelming nor unbearable and seem to be reducing, I believe it would require a considerable degree of benefit foreseen to justify destroying the Corporation's appliance retailing network, which is nationwide, stable and sufficiently satisfactory to have sustained the market in these goods, and their UK manufacture in competition with electricity.

13.125. By comparison, the more radical option is a leap in the dark. I agree with Mr Ashford's analysis of its disadvantages in his Note of Preference and I discuss some further considerations below.

13.126. In theory, given keener competition and a freer market in energy than has been usual for some years, the textbook conditions will apply upon the withdrawal of BGC, and manufacturers (unless they find it more attractive to switch to making goods for which a retail network is already well established) will not stop making gas appliances but will try to reckon the effective demand for them while seeking new retail outlets through which to supply them at a profit. Even over three years, however, the manufacturers' task would be enormous in selling up to nine-tenths of their output to perhaps many hundreds of new customers in place of one, and we received evidence that manufacturers had not been capable of organising the availability of spares to the outlets of even one large private retailer who entered the market very seriously. It is almost certain that there would be some dislocation in the chain of manufacture and distribution while retailers, over whom the Commission has no control, experiment.

13.127. If manufacturers stayed in business their employment of transport resources would rise, perhaps steeply, along with sales and administrative costs for a given output of appliances. It is far from certain therefore that costs can be kept steady and profits satisfactory without price rises to the final customer, or that the new retailers will equal the British Gas contribution to appliance research or even its modest export effort.

13.128. Without British Gas as an established retailer the new retailers will not be able to look for a slot to fill at a profit by backing their own assessment of some consumer preference that the Corporation neglects.

13.129. Last, but by no means least, I consider the effect of withdrawing from appliance retailing upon the attitude of BGC itself. An organisation providing advice and service and acting as a collector of debts may, even with great goodwill, become insensitive to the importance of the wishes of the individual consumer and this is no less a danger when the organisation is also the only supplier of gas. To the domestic gas consumer the Corporation is a huge, remote entity whose only human face is to be found in the familiar surroundings of the local showroom. It is good for BGC—and in the public interest—that the ordinary housewife should have access to it in her role of customer, able to buy or not to buy a gas appliance there or to take her custom elsewhere. I would regret the loss of this form and type of access to the Corporation.

13.130. For these reasons, taken together with the disadvantages foreseen by Mr Ashford, I see at least a possibility that if BGC were excluded from retailing, neither the UK manufacturing industry nor an appliance retailing network would survive at anything like their present size and scope. On balance, I would find it difficult, notwithstanding paragraph 13.110, to envisage circumstances in which the exclusion of BGC from retailing should be preferred to all available alternatives, of which the best, in my view, is at this time already the 'less radical' proposal in paragraphs 13.102 ff. and Appendix N.

J G LE QUESNE (*Chairman*)

G F ASHFORD¹

F E JONES

R G OPIE

RITA STEPHEN²

H STREET

J GILL (*Secretary*)
30 May 1980

¹ Subject to Note of Preference at paragraphs 13.112 to 13.118.

² Subject to Note of Preference at paragraphs 13.119 to 13.130.

APPENDIX A
(Referred to in paragraph 2.9)
Supply of Reference Goods in the United Kingdom

Years to end March

Company	1973			1974			1975			1976			1977			1978			1979									
	No. 000	£	% of market	No. 000	£	% of market	No. 000	£	% of market	No. 000	£	% of market	No. 000	£	% of market	No. 000	£	% of market	No. 000	£	% of market							
Cookers																												
Thorn	231	9,148	36.0	273	11,637	46.6	311	17,407	49.1	457	273	19,487	43.1	39.4	235	22,574	44.0	41.6	253	27,711	42.8	40.6	248	31,176	39.7	36.5		
TI	170	7,482	28.5	140	5,342	21.3	121	7,070	19.1	185	126	8,866	19.9	17.9	120	10,509	20.7	19.3	119	12,931	19.3	18.9	120	14,801	19.2	17.4		
Glynwed ¹	103	4,805	18.0	75	2,835	10.9	83	3,207	8.7	90	7,394	14.2	15.0	64	5,844	11.0	10.8	76	9,043	12.9	13.3	106	14,912	17.0	15.4			
Valor	63	3,147	9.8	52	2,501	8.9	42	3,369	9.0	38	22	4,892	11.3	9.9	64	4,138	11.0	7.6	70	5,482	11.9	8.0	62	5,658	9.9	6.6		
Cannon	64	4,127	10.0	13.9	43	2,810	7.3	101	42	3,369	6.6	38	5,363	7.9	10.8	53	7,037	9.1	13.0	51	8,775	8.6	12.9	54	11,583	8.6	13.6	
Imports ²	82	898	1.2	3.0	8	933 ²	1.3	3.4	9	1,250 ²	1.4	3.3	18	3,467	0.8	0.9	19	3,642	3.3	6.7	13	3,128	2.2	4.6	19	4,568	3.0	5.4
Imports ³	3	180	0.5	0.6	4	245	0.7	0.9	4	276	0.6	0.7	5	467	0.8	0.9	5	545	0.9	1.0	9	1,188	1.5	1.7	16	2,591	2.6	3.0
Total	642	29,787	100	586	27,768	100	634	38,120	100	100	634	49,476	100	100	580	54,289	100	100	591	68,258	100	100	625	85,289	100	100		
Space heaters																												
UGI	200	4,268	21.6	190	4,140	24.6	175	4,573	22.6	242	202	6,279	25.6	26.2	219	7,768	28.0	27.9	199	8,170	25.1	24.4	229	10,317	24.3	24.0		
Valor	80	1,310	9.5	138	3,418	17.5	116	3,769	15.0	146	148	4,546	18.7	18.9	120	4,649	15.4	16.7	153	7,449	19.3	22.2	211	10,560	22.4	25.2		
Thorn	142	2,200	16.8	135	3,448	19.5	139	3,276	19.3	189	130	3,581	16.4	14.9	128	4,020	16.4	14.4	138	5,338	17.5	15.9	145	5,931	15.4	13.8		
TI	163	3,298	19.2	20.3	3,264	19.9	112	3,280	17.2	198	130	4,200	16.4	17.5	122	4,700	15.6	16.9	106	4,847	13.4	14.5	85	4,494	9.0	10.4		
Baxendale	2	95	0.2	0.6	101	0.3	0.6	112	0.3	0.6	29	144	0.3	0.3	41	1,265	5.2	4.5	57	1,892	7.2	5.6	83	2,833	8.8	6.6		
Cannon	116	2,632	13.7	16.2	60	1,324	7.8	83	66	1,732	8.5	9.3	29	1,744	6.2	8.8	38	2,371	7.4	8.5	38	1,837	4.8	5.5	47	2,471	5.0	5.8
Glynwed ¹	112	1,711	13.2	10.5	54	799	7.0	5.0	73	1,262	9.5	6.7	52	1,307	4.8	6.7	52	1,395	5.3	4.2	45	1,672	4.8	3.9	39	1,627	4.8	3.9
Valor	23	594	2.7	3.7	14	436	1.8	2.8	18	619	2.3	3.3	21	1,820	7.7	3.1	32	1,395	5.3	4.2	34	1,627	3.6	3.8	38	1,527	3.6	3.8
W.H. Dean ⁴	8	138	1.0	0.8	8	141	1.0	0.9	8	150	1.0	0.8	12	288	1.5	1.2	14	291	0.8	1.1	5	383	0.8	0.8	24	905	3.0	2.7
Imports ^{3, 5}	847	16,271	100	772	15,875	100	773	18,890	100	100	791	24,007	100	100	781	27,861	100	100	792	33,511	100	100	942	43,011	100	100		
Water heaters																												
Thorn	48	1,493	35.3	41.2	63	2,075	46.3	51.0	54	2,372	40.0	50.1	62	3,061	45.3	54.9	82	4,645	51.2	57.7	53	4,122	44.9	52.4	54	4,477	38.9	48.6
TI	74	1,767	54.4	48.8	56	1,527	41.2	37.5	49	1,345	36.3	32.6	49	1,739	35.8	31.2	47	2,268	29.4	28.2	27	1,613	22.9	20.5	26	1,411	18.7	15.3
Imports																												
Chaiforeaux	13	350	9.6	9.7	16	458	11.8	11.2	31	802	23.0	17.0	25	764	18.2	13.7	30	1,112	18.8	13.8	36	2,072	30.5	26.3	57	3,232	41.0	35.1
Other ³	1	11	0.7	0.3	1	12	0.7	0.3	1	12	0.7	0.3	1	13	0.7	0.2	1	24	0.6	0.3	2	60	1.7	0.8	2	87	1.4	1.0
Total	136	3,621	100	136	4,072	100	136	4,731	100	100	137	5,577	100	100	160	8,049	100	100	118	7,867	100	100	139	9,207	100	100		

Notes: 1. Values figures are at delivered prices excluding VAT. 2. Estimated. 3. Estimated (except for 1977-78 and 1978-79). 4. Years to end September. 5. A number of imported space heaters up to 1976-77 were marketed through UGI and Valor; these are included in the sales figures of those companies.

APPENDIX B
(Referred to in paragraph 2.20)

Export of Reference Goods by British Manufacturers

	Years to end March											
	1974		1975		1976		1977		1978		1979	
	Value £'000 sales	% of* sales	Value £'000 sales	% of* sales	Value £'000 sales	% of* sales	Value £'000 sales	% of* sales	Value £'000 sales	% of* sales	Value £'000 sales	% of* sales
<i>Cookers</i>												
Thorn	303	2.5	263	1.5	279	1.4	336	1.5	384	1.4	527	1.7
T I	491	7.1	477	6.3	405	4.4	514	4.7	1,161	8.2	1,043	6.6
Glynwed†	37	1.1	98	1.8	144	1.9	91	1.5	100	1.1	81	0.5
Valor	7	0.3	15	0.4	43	0.9	71	1.7	108	1.9	559	9.0
Cannon	95	3.3	241	6.7	335	5.9	500	6.6	425	4.6	410	3.4
Total	933		1,094		1,206		1,512		2,178		2,620	
<i>Space heaters</i>												
U G I	129	3.0	160	3.4	251	3.8	238	3.0	351	4.1	192	1.8
Valor	32	1.0	74	2.6	214	4.5	23	0.5	80	1.1	77	0.7
Thorn	131	5.1	209	5.5	196	5.2	50	1.2	50	0.9	49	0.8
T I	65	2.0	92	2.4	199	4.5	156	3.2	119	2.4	100	2.2
Baxi	—	—	—	—	—	—	2	0.1	14	0.7	7	0.3
Cannon	26	3.9	16	0.9	24	1.1	10	0.4	20	1.1	18	0.7
Glynwed†	32	3.9	70	5.3	10	0.8	22	1.5	33	2.3	27	1.6
Total	415		621		894		501		667		470	
<i>Water heaters</i>												
Thorn	—	—	—	—	—	—	11	0.2	14	0.3	33	0.7
T I	102	6.3	151	8.9	57	3.2	36	1.6	54	3.2	8	0.6
Total	102		151		57		47		68		41	

Notes: *Source*—Manufacturers' returns to the Monopolies Commission.

* Percentage of the total sales of reference goods.

† Calendar years.

APPENDIX C
(Referred to in paragraph 1.9)

Manufacturers' and Importers' deliveries of Reference Goods in Britain (by number) and British Gas Corporation's Proportion

	<i>Years to end March</i>					<i>December*</i>
	<i>1975</i>	<i>1976</i>	<i>1977</i>	<i>1978</i>	<i>1979</i>	<i>1979</i>
<i>Cookers</i>						
Total market ('000)	615	593	558	579	640	432
BGC's proportion (%)	92.4	90.3	91.4	92.9	90.7	88.5
<i>Space heaters</i>						
Total market ('000)	753	780	770	794	975	716
BGC's proportion (%)	82.7	83.4	85.0	88.7	89.0	86.0
<i>Instantaneous Water Heaters</i>						
Total market ('000)	118	125	144	124	138	116
BGC's proportion (%)	75.2	76.0	67.1	67.3	72.0	67.0

Notes:

* 9 months deliveries to December 1979.

Source: The figures are based on SBGI annual statistics of manufacturers' deliveries in Britain plus estimated imports (the destination of the latter—to BGC and to other distributors—has been estimated for earlier years). The BGC proportions therefore include the wholesale trade and its sales through authorised dealers.

APPENDIX D
(Referred to in paragraph 2.13)

The Proportion (by value) of Manufacturers' Sales of Reference Goods in the United Kingdom to the British Gas Corporation

	<i>Years to end March</i>					
	<i>1974</i>	<i>1975</i>	<i>1976</i>	<i>1977</i>	<i>1978</i>	<i>1979</i>
	%	%	%	%	%	%
<i>Cookers</i>						
Thorn	86.6	90.3	86.1	89.5	89.5	88.5
TI	91.4	88.2	89.4	86.0	90.5	86.0
Glynwed ¹					97.1	91.8
Valor					100.0	98.9
Cannon					97.4	95.9
Carron ¹						90.0
<i>Space heaters</i>						
UGI	87.0	82.6	78.9	83.8	89.6	84.0
Valor					100.0	96.5
Thorn	81.1	82.6	79.9	81.2	83.9	78.4
TI	72.5	71.3	63.8	61.6	78.7	75.9
Baxendale					96.0	96.0
Cannon					83.5	88.6
Glynwed ¹					76.8	82.4
Economic					67.5	88.0
W. H. Dean ²					68.0	91.0
<i>Instantaneous water heaters</i>						
Thorn	60.6	57.9	70.6	65.9	68.9	67.9
TI	60.5	73.0	73.4	58.9	71.2	75.3
<i>Imports</i>						
Chaffoteaux	—	—	84.7	83.9	79.3	85.4

Notes:

¹ Calendar years 1977 and 1978.

² Years to September.

Source: Manufacturers' returns to the Monopolies Commission.

APPENDIX E
(Referred to in paragraph 3.13)

Ranges of Differentials

Percentage above price to BGC

Four major brands of cooker

	<i>Orders for 1 Cooker</i>	<i>Orders for 5 Cookers</i>	<i>Orders for 25 Cookers</i>	<i>Bulk Orders (ie best price offered)</i>
<i>At 1 August</i>				
1973	17½-30	17½-22½	12½-17½	6 -12½
1974	17½-30	17½	7½-17½	6 -12½
1975	17½-30	17½	7½-17½	6 -12½
1976	20 -38	17½-22½	7½-17½	7½-17½
1977	20 -38	17½-38	7½-17½	7½-17½
1978	17½-38	17½-38	7½-17½	7½-17½
1979	25 -28	25 -28	12½-17½	10 -17½

Four major brands of fire

	<i>Orders for 1 fire</i>	<i>Orders for 10 fires</i>	<i>Orders for 50 fires</i>	<i>Bulk Orders (ie best price offered)</i>
<i>At 1 August</i>				
1973	14 -30	5½-17½	4 -14	3½-12½
1974	15 -31	5½-18	3 -15	3 -13
1975	18 -30	10 -22½	7½-17½	5 -17½
1976	18 -30	10 -22½	7½-18½	5 -18½
1977	17½-30	12½-25	7½-22½	7½-19
1978	17½-30	12½-27½	7½-25	7½-21
1979	20 -55	12½-32	7½-16	7½-15

Three major brands of water heater

	<i>Orders for 1 heater</i>	<i>Orders for 10 heaters</i>	<i>Orders for 50 heaters</i>
<i>At 1 August</i>			
1973	6½-20	2½-14½	Nil-10
1974	7 -20	2½-14½	Nil-12
1975	7½-20	2½-14½	2½- 7½
1976	10 -20	2½-17½	2½-10
1977	17½-22½	2½-22½	2½-12½
1978	20 -25	2½-22½	2½-12½
1979	12½-25	2½-17	2½- 5

- Notes: (i) Figures are based on manufacturers' price lists.
(ii) Some manufacturers offer independent retailers an additional 2½% discount for payment within 30 days.

APPENDIX F
(Referred to in paragraph 1.7)

Indices of Domestic Prices for Energy

General Index of retail prices (RPI)

<i>Monthly averages</i>	January 1974 = 100					
	<i>All items</i>	<i>All fuel and light</i>	<i>Solid fuel</i>	<i>Gas</i>	<i>Electricity</i>	<i>Fuel oil and paraffin</i>
1962	53	54	46	70	55	
1967	62	66	58	77	70	
1968	65	71	61	82	78	
1969	69	73	64	86	78	
1970	73	77	74	86	78	
1971	80	85	83	93	86	
1972	86	92	92	98	92	
1973	94	95	95	99	94	
1974	109	111	106	104	114	134
1975	135	147	142	120	166	152
1976	157	182	175	147	207	194
1977	182	211	204	171	236	242
1978	197	228	226	176	260	245
1979	224	251	265	182	283	310

Source: Department of Employment.

APPENDIX G
(Referred to in paragraph 3.14)

British Gas Corporation—Showrooms and Authorised Dealers

	<i>End March</i>									<i>January</i>
<i>Numbers</i>	<i>1971</i>	<i>1972</i>	<i>1973</i>	<i>1974</i>	<i>1975</i>	<i>1976</i>	<i>1977</i>	<i>1978</i>	<i>1979</i>	<i>1980</i>
Showrooms	1,086 ¹	1,029 ¹	988 ¹	981	964	952	941	938	931	
Authorised Dealers								226		205

Regional Breakdown—April 1978

<i>Region</i>	<i>Showrooms</i>	<i>Authorised Dealers</i>
Scottish	110	—
Northern	46	3
North Western	123	8
North Eastern	73	—
East Midlands	74	5
West Midlands	70	51
Wales	55	7
Eastern	76	11
North Thames	79	76
South Eastern	96	38
Southern	64	7
South Western	72	20
	—	—
	938	226
	—	—

Notes: *Source:* British Gas Corporation

¹ Estimated.

APPENDIX H 1
(Referred to in paragraph 3.36)

British Gas Corporation—Financial Data

Turnover and profits—year ended 31 March

	1977			1978			1979		
	Gas £m	Contract- Marketing Appliance £m	Total £m	Gas £m	Contract- Marketing Appliance £m	Total £m	Gas £m	Contract- Marketing Appliance £m	Total £m
<i>Turnover</i>	1,746.3	102.5	1,968.5	2,297.1	125.8	2,568.1	2,624.5	162.8	2,971.8
<i>Trading Profit [loss]</i>	554.9	[11.6]	543.6	710.3	[13.9]	698.0	614.3	[16.5]	607.9
<i>Less</i>									
Displaced plant ¹	80.6	—	80.6	83.2	—	83.2	—	—	—
Deferred charges ²	148.3	—	148.3	155.7	—	155.7	—	—	—
<i>Profit [loss] before interest and tax—</i>	326.0	[11.6]	314.7	471.4	[13.9]	459.1	614.3	[16.5]	607.9
<i>historic cost</i>									
<i>Less</i>									
Supplementary depreciation	101.4	.6	102.6	143.1	.9	145.4	162.9	.9	165.3
<i>Profit [loss] before interest and tax—</i>	224.6	[12.2]	212.1	328.3	[14.8]	313.7	451.4	[17.4]	442.6
<i>current cost</i>									

Notes: ¹ Displaced plant represents the amortisation of coal and oil based plant taken out of commission due to the introduction of natural gas.

² Deferred charges represent the amortisation of expenditure incurred in converting customers' appliances to natural gas.

APPENDIX H 2
(Referred to in paragraph 3.37)

British Gas Corporation

Appliance Marketing—Turnover, profit and capital employed—historic cost basis

		<i>Year ended 31 March</i>				
		1975	1976	1977	1978	1979
Turnover	£m	83.7	107.5	121.9	148.2	186.7
<i>Historic cost basis</i>						
Profit [loss]	£m	[6.5]	.5	-.3	1.6	10.1
Capital employed	£m	28.0	27.8	27.5	30.0	35.0
Return on turnover	%	[7.8]	.5	-.2	1.1	5.4
Return on capital employed	%	[23.2]	1.8	1.1	5.3	28.8
including HP interest						
Profit [loss]	(i) £m	[2.4]	5.4	6.3	8.8	18.7
Capital employed	(ii) £m	76.3	79.8	87.3	97.7	111.5
Return on turnover	%	[2.9]	5.1	5.1	6.0	10.1
Return on capital employed	%	[3.1]	6.8	7.2	9.0	16.8
<i>Current (Replacement) cost basis (iii)</i>						
Profit [loss]	£m	N/A	N/A	[-3]	.2	8.6
Capital employed	£m	N/A	N/A	N/A	45.0	47.0
Return on turnover	%	N/A	N/A	[-2]	.1	4.6
Return on capital employed	%	N/A	N/A	N/A	.4	18.3
including HP interest						
Profit [loss]	(i) £m	N/A	N/A	5.7	7.4	17.2
Capital employed	(ii) £m	N/A	N/A	N/A	112.7	123.5
Return on turnover	%	N/A	N/A	4.7	5.0	9.2
Return on capital employed	%	N/A	N/A	N/A	6.6	13.9

Notes: (i) Including HP interest received but before charging the cost of financing HP transactions.

(ii) Including HP debtors.

(iii) Based on revaluation of fixed assets at replacement cost and supplementary depreciation. BGC considers no cost of sales or gearing adjustments are required.

APPENDIX H 3
(Referred to in paragraph 3.37)

British Gas Corporation

Appliance Marketing
Turnover, costs and profits

<i>Historic cost basis</i>	<i>Year ended 31 March</i>				
	<i>1975</i>	<i>1976</i>	<i>1977</i>	<i>1978</i>	<i>1979</i>
<i>Turnover—£m</i>	83.7	107.5	121.9	148.2	186.7
<i>Costs—percentage of turnover</i>	%	%	%	%	%
Appliances	69.1	67.0	66.9	68.1	69.0
Showroom expenses	6.3	4.5	5.7	5.6	5.4
Other selling expenses	1.3	0.9	0.9	0.8	0.7
Field salesmen	9.3	7.7	6.5	6.1	5.4
Special offers	7.4	8.2	8.3	8.4	7.7
Purchasing and stores	5.2	6.1	5.7	5.1	4.4
Sales administration	5.9	3.9	4.3	3.8	3.6
Customer accounting	6.0	5.0	4.7	4.5	4.1
Other costs	8.1	5.5	5.3	5.0	3.0
<i>Total costs</i>	118.6	108.8	108.3	107.4	103.3
Deduct HP income for interest and administration costs	12.4	11.1	11.4	11.3	11.1
Credit for central heating sales by field salesmen	3.3	2.8	2.0	2.1	2.3
<i>Net costs—before charging cost of HP finance</i>	102.9	94.9	94.0	94.9	89.9
Profit [loss]—(including HP interest received)	[2.9]	5.1	5.1	6.0	10.1
Deduct HP interest received (set off against interest paid)	4.9	4.6	4.9	4.9	4.7
<i>Profit [loss]</i>	[7.8]	0.5	0.2	1.1	5.4

APPENDIX H 4
(Referred to in paragraph 3.37)

British Gas Corporation

Allocation of costs—year to 31 March 1979

Expense	Total(a)	Gas		Allocation Installation and Contracting		Appliance Marketing	
		£m	£m	%	£m	%	£m
Showroom Expenses							
—salaries and wages	21.2	14.6	69			6.6	31(b)(c)
—Other costs	9.5	7.2	76			2.3	24
Other selling expenses	1.3					1.3	100
Field Salesmen	10.1	3.2	32			6.9	68(c)
Advertising	19.9	19.9	100				
Special offers	14.4					14.4	100
Purchasing and stores	44.2	31.9	72	4.0	9	8.3	19
Sales administration	6.8					6.8	100
Customer accounting	121.0	110.5	91	2.8	2	7.7	7
Gas fitters wages and costs	99.5	62.9	63	36.6	37		
Customer service overheads	98.7	85.2	86	13.5	14		
Other costs	1,062.1	934.1	88	122.4	11	5.6	1
	<u>1,508.7</u>	<u>1,269.5</u>	<u>84</u>	<u>179.3</u>	<u>12</u>	<u>59.9</u>	<u>4</u>

Notes: (a) Total expenditure incurred by the Corporation for the entirety of its business other than the cost of prime materials and appliances.

(b) Including sales commission which is wholly charged to Appliance Marketing.

(c) After credit for central heating sales.

APPENDIX I 1
(Referred to in paragraph 5.20)

Thorn Gas Appliances—Financial Data

Sales, profits and capital employed

	<i>Years to 31 March</i>					
	<i>1974</i>	<i>1975</i>	<i>1976</i>	<i>1977</i>	<i>1978</i>	<i>1979</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<i>Historic cost</i>						
<i>Sales (including exports)</i>						
Cookers	12,554	18,406	20,780	24,351	30,016	33,637
Fires and Unit Heaters	2,513	3,715	3,778	4,070	5,388	5,976
Water Heaters	2,097	2,517	3,552	5,503	5,232	5,402
Conversion Units	3,463	3,041	2,281	525	103	—
Spares	1,113	1,836	2,355	2,418	3,616	3,685
Miscellaneous	—	—	—	—	54	148
<i>Total</i>	<u>21,740</u>	<u>29,515</u>	<u>32,746</u>	<u>36,867</u>	<u>44,409</u>	<u>48,848</u>
<i>Gross Profits (a)</i>						
Cookers						
Fires and Unit Heaters						
Water Heaters						
Conversion Units						
Spares						
Miscellaneous						
Total						
Adjustments—profit [loss] (b)						
				[<i>Details omitted.</i>		
				[<i>See note on page iv.</i>]		
<i>Adjusted gross profit</i>						
<i>Overheads (c)</i>						
<i>Net profit before interest and tax</i>	<u>1,360</u>	<u>2,145</u>	<u>1,255</u>	<u>1,960</u>	<u>3,979</u>	<u>3,585</u>
<i>Capital employed (d)</i>	<u>5,642</u>	<u>7,667</u>	<u>10,060</u>	<u>10,877</u>	<u>10,836</u>	<u>13,089</u>

Notes: (a) Gross profit is after charging standard manufacturing costs.

(b) Adjustments to standard manufacturing costs and year end adjustments.

(c) Overheads comprise selling, distribution and administration costs which are not allocated between product types.

(d) Capital employed on an historic cost basis comprises the average of opening and closing balances of tangible fixed assets at book value less accumulated depreciation and net current assets before deducting bank overdrafts, loans, future tax and proposed dividends and excluding group finance.

APPENDIX I 2
(Referred to in paragraph 5.20)

Thorn Gas Appliances Ltd

Salient returns and ratios

		<i>Year to 31 March</i>					
		<i>1974</i>	<i>1975</i>	<i>1976</i>	<i>1977</i>	<i>1978</i>	<i>1979</i>
		<i>Notes</i>					
Return on capital employed—							
Historic cost basis	% (a)	24.1	28.0	12.5	18.0	36.7	27.3
Fixed assets per employee	£'000	0.9	1.0	1.2	1.4	1.66	1.5
Value added per employee—	£'000						
Actual		2.76	3.38	3.72	4.33	5.41	6.23
Indexed to RPI (1974 = 100)		2.76	2.87	2.53	2.56	2.80	2.98
Emoluments per employee—	£'000						
Actual		2.21	2.62	3.20	3.51	3.89	4.83
Indexed to RPI (1974 = 100)		2.21	2.22	2.18	2.07	2.01	2.31
Value added in relation to—							
Turnover		0.39	0.39	0.39	0.36	0.37	0.42
Capital employed		1.51	1.48	1.27	1.21	1.54	1.56
Emoluments—productivity ratio		1.25	1.29	1.16	1.23	1.39	1.29

Note: (a) TGA considers that average capital employed based on opening and closing balances is inaccurate. It has calculated the return based on a monthly average and excluding profits and losses on non-reference products other than conversion units (but including exports) to be as follows:

		<i>Year ended 31 March</i>					
		<i>1974</i>	<i>1975</i>	<i>1976</i>	<i>1977</i>	<i>1978</i>	<i>1979</i>
Historic cost basis		20.4%	25.5%	10.4%	17.5%	31.8%	26.0%
Current cost basis		N/A	9.0%	0.4%	[2.1]%	17.1%	11.5%

Profit and capital employed on a current cost basis has been calculated in accordance with the recommendations contained in *Inflation Accounting: Report of the Inflation Accounting Committee (Sandilands)*.

APPENDIX I 3
(Referred to in paragraph 5.20)

Thorn Gas Appliances Ltd

Source and Application of funds

	<i>Year to 31 March</i>					
	<i>1974</i>	<i>1975</i>	<i>1976</i>	<i>1977</i>	<i>1978</i>	<i>1979</i>
<i>Source of funds</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Profit before interest and tax	1,360	2,145	1,255	1,960	3,979	3,585
Depreciation	337	410	551	548	711	980
Sale of fixed assets etc.	88	42	673	128	66	59
<i>Total funds</i>	<u>1,785</u>	<u>2,597</u>	<u>2,479</u>	<u>2,636</u>	<u>4,756</u>	<u>4,624</u>
 <i>Application of funds</i>						
Purchase of fixed assets	493	1,834	968	542	1,985	2,470
Interest paid [received] net	[37]	6	177	60	[140]	[405]
Tax paid [recovered]	511	390	411	[827]	[726]	1,050
Dividends paid	500	300	710	212	620	957
Working capital—increase [decrease]	2,144	1,354	2,021	[480]	[275]	4,304
<i>Total applied</i>	<u>3,611</u>	<u>3,884</u>	<u>4,287</u>	<u>[493]</u>	<u>1,464</u>	<u>8,376</u>
Surplus [deficit]	[1,826]	[1,287]	[1,808]	3,129	3,292	[3,752]

APPENDIX J 1
(Referred to in paragraph 5.20)

TI Domestic Gas Appliances Ltd—Financial Data

Sales, profits and capital employed (a)

	<i>Year to 31 December</i>					
	<i>1973</i>	<i>1974</i>	<i>1975</i>	<i>1976</i>	<i>1977</i>	<i>1978</i>
<i>Historic Cost</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<i>Sales</i>						
Cookers	6,364	6,988	8,130	10,338	12,151	13,525
Fires	2,845	3,388	4,057	3,812	3,908	4,736
Water Heaters	1,401	1,259	1,611	1,882	1,888	1,542
Conversion Units	4,451	4,296	3,308	1,584	179	43
Spares	1,867	2,573	3,044	2,978	3,715	4,800
<i>Total Sales</i>	16,928	18,504	20,150	20,594	21,841	24,646
<i>Profit [Loss] before interest and tax</i>						
Cookers	<i>[Details omitted. See note on page iv.]</i>					
Fires						
Water Heaters						
Conversion Units						
Spares						
<i>Total Profit [Loss]</i>	793	[88]	[39]	[744]	[1,100]	9
<i>Capital employed (b)</i>	5,596	7,982	7,618	6,595	8,567	9,220

Notes:(a) Sales, profits and capital employed does not include Glow Worm Ltd or TI Gas Controls Ltd. The management accounts of Glow Worm Ltd do not provide a breakdown of results by product type because sales of space heaters which amounted to some £987,000 in 1978, approximately 4% of turnover, are not considered significant. TI Gas Controls Ltd manufactures thermostats and gas controls which are sold to group companies and third parties on an arm's length basis.

(b) See Appendix I 1 note (d). Capital employed has been allocated between activities pro rata to turnover.

APPENDIX J 2
(Referred to in paragraph 5.41)

TI Domestic Appliances Ltd

Salient returns and ratios

		<i>Year to 31 December</i>					
		1973	1974	1975	1976	1977	1978
Return on capital employed— historic cost basis	%	14.2	[1.1]	[0.5]	[11.3]	[12.8]	0.1
Fixed assets per employee	£'000 (a)	0.6	0.7	0.8	0.9	0.9	1.0
Value added per employee	£'000 (a)						
Actual		1.89	1.84	2.35	2.95	3.30	4.64
Indexed to RPI (1973 = 100)		1.89	1.58	1.63	1.75	1.69	2.20
Emoluments per employee	£'000 (a)						
Actual		1.67	2.01	2.64	3.27	3.73	4.50
Indexed to RPI (1973 = 100)		1.67	1.73	1.83	1.94	1.91	2.13
Value added in relation to—	(a)						
Turnover		0.34	0.30	0.29	0.30	0.29	0.34
Capital employed		1.04	0.70	0.76	0.94	0.73	0.90
Emoluments—productivity ratio		1.12	0.91	0.89	0.90	0.88	1.03

Note: (a) Including non-reference activities which account for some 20% of total turnover.

APPENDIX K
(Referred to in paragraph 5.53)

Glynwed Domestic and Heating Appliances Ltd—Financial Data

	<i>Year to 31 December</i>					
	<i>1973</i>	<i>1974</i>	<i>1975</i>	<i>1976</i>	<i>1977</i>	<i>1978</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<i>Sales</i>						
<i>Reference goods</i>						
UK—Cookers	3,245	5,207	7,394	5,844	9,043	14,912
Fires	799	1,262	1,307	1,486	1,395	1,672
Exports—Cookers	37	98	144	91	100	81
Fires	32	70	10	22	33	27
<i>Total reference goods</i>	<u>4,113</u>	<u>6,637</u>	<u>8,855</u>	<u>7,443</u>	<u>10,571</u>	<u>16,692</u>
Other products	6,531	13,669	15,443	16,754	19,689	22,471
<i>Total Sales</i>	<u>10,644</u>	<u>20,306</u>	<u>24,298</u>	<u>24,197</u>	<u>30,260</u>	<u>39,163</u>
<i>Profit [Loss] before interest and tax</i>	[178]	[683]	537	[478]	150	944
<i>Capital Employed</i> ¹	5,449 ²	7,499	9,733	9,849	9,470	10,325
Return on sales	[1·7]%	[3·4]%	2·2%	[2·0]%	0·5%	2·4%
Return on capital employed	[3·3]%	[9·1]%	5·5%	[4·9]%	1·6%	9·1%

Notes: ¹ See Appendix I 1 note (d).

² Year end capital employed, not average for the year as in following years.

APPENDIX L
(Referred to in paragraph 5.63)

Valor Newhome and Valor Heating Ltd—Financial Data

	<i>Year ended 31 March</i>					
	<i>1974</i>	<i>1975</i>	<i>1976</i>	<i>1977</i>	<i>1978</i>	<i>1979</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<i>Sales</i>						
Reference goods						
UK—Cookers	2,501	3,541	4,892	4,137	5,482	5,658
Fires and Unit Heaters	3,118	2,769	4,546	4,649	7,449	10,860
Exports—Cookers	6	15	43	72	108	559
Fires and Unit Heaters	32	74	214	23	80	77
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Other Products ¹	5,657	6,399	9,695	8,881	13,119	17,154
	9,525	8,067	6,678	10,000	11,683	11,803
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Total Sales</i>	15,182	14,466	16,373	18,881	24,802	28,957
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Profit—before interest and tax</i> ²	2,060	300	162	333	1,107	2,203
<i>Capital Employed</i> ³	6,524 ⁴	7,070	7,484	7,144	6,929	7,146
Return on sales	13.6%	2.1%	1.0%	1.8%	4.5%	7.0%
Return on capital employed	31.6%	4.2%	2.2%	4.7%	16.0%	28.3%

Notes: ¹ Including gas spares and conversion units.

² Profits reflect the following:

(a) Depreciation charged in the accounts of Valor Heating increased from £46,665 in 1975–76 to £355,306 in 1977–78 principally for amortisation of tooling.

(b) Valor Newhome received temporary employment subsidies amounting to £56,816 in 1975–76 and £232,794 in 1976–77.

³ See Appendix I 1 note (d).

⁴ Based on capital employed at year end, not average for the year.

APPENDIX M1
(Referred to in paragraph 5.86)

United Gas Industries Ltd—Financial Data

Robinson Willey Ltd—Sales, profits and capital employed

	<i>Year to 31 March</i>					
	<i>1974</i>	<i>1975</i>	<i>1976</i>	<i>1977</i>	<i>1978</i>	<i>1979</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<i>Historic Cost</i>						
<i>Sales (including exports)</i>						
Fires and Unit Heaters	4,368	4,750	5,748	6,773	7,395	9,394
Water Heaters	32	1	—	—	—	110 ¹
Conversion Units	389	383	295	83	—	—
Spares	281	309	299	294	383	473
Contract Maintenance, etc.	18	16	20	20	20	17
<i>Total sales</i>	<u>5,088</u>	<u>5,459</u>	<u>6,362</u>	<u>7,170</u>	<u>7,798</u>	<u>9,994</u>
<i>Profit before interest and tax</i>	200	191	202	300	551	643
<i>Capital employed²</i>	1,695	1,695	1,599	1,647	1,885	2,174
<i>Return on sales</i>	3.9%	3.5%	3.2%	4.2%	7.1%	6.4%
<i>Return on capital employed</i>	11.8%	11.3%	12.6%	18.2%	29.2%	29.6%
<i>Berry Magicoal Ltd</i>						
<i>Sales</i>						
Gas fires	203	286	910	1,233	1,152	1,489
Gas spares	53	51	68	68	60	54
<i>Total gas products</i>	<u>256</u>	<u>337</u>	<u>978</u>	<u>1,301</u>	<u>1,212</u>	<u>1,543</u>
Electric products and exports	5,916	3,531	2,338	2,789	3,821	4,639
<i>Total sales</i>	<u>6,172</u>	<u>3,868</u>	<u>3,316</u>	<u>4,090</u>	<u>5,033</u>	<u>6,182</u>
<i>Profit [Loss] before interest and tax</i>	111	[280]	[153]	160	498	440
<i>Total capital employed (historic cost)</i>	1,953	1,931	1,584	1,403	1,394	1,542
<i>Return on sales</i>	1.8%	[7.2]%	[4.6]%	3.9%	9.9%	7.1%
<i>Return on capital employed</i>	5.7%	[14.5]%	[9.6]%	11.4%	35.7%	28.5%

Notes: ¹ Central heating boilers.

² See Appendix I 1 note (d).

APPENDIX M 2
(Referred to in paragraph 5.86)

United Gas Industries Ltd

Robinson Willey Ltd—Salient returns and ratios

	<i>Year to 31 March</i>					
	<i>1974</i>	<i>1975</i>	<i>1976</i>	<i>1977</i>	<i>1978</i>	<i>1979</i>
Profit before interest and tax as percentage of sales %	3.9	3.5	3.2	4.2	7.1	6.4
Return on capital employed—historic cost basis %	11.8	11.3	12.6	18.2	29.2	29.6
Fixed assets per employee £'000	1.0	1.1	1.1	1.0	1.1	1.1
Value added per employee £'000						
Actual	1.90	2.12	2.95	3.09	3.88	4.94
Indexed to RPI (1974 = 100)	1.90	1.78	1.99	1.80	1.99	2.36
Emoluments per employee £'000						
Actual	1.48	1.68	2.24	2.46	2.83	3.71
Indexed to RPI (1974 = 100)	1.48	1.41	1.65	1.44	1.45	1.77
Value added in relation to—						
Turnover	0.21	0.21	0.25	0.25	0.29	0.29
Capital employed	0.66	0.67	1.00	1.09	1.22	1.34
Emoluments—productivity ratio	1.28	1.26	1.20	1.25	1.37	1.33

Berry Magicoal Ltd.

Salient returns and ratios for the business as a whole would not necessarily reflect the trading results of reference activities and the company was unable to provide any meaningful allocation of costs and capital employed between reference and non-reference products.

APPENDIX N

(Referred to in paragraph 13.103)

Possible Instruction to British Gas Corporation on Buying Prices and Profitability

In the event of a decision being taken on the lines envisaged in paragraphs 13.101 to 13.106, it is suggested that the appropriate instructions might be on the following lines.

Section A—Buying Prices

This should be in the form of a requirement imposed alike on those manufacturers who have been found to be participants in the complex monopoly as shown in paragraph 13.18, and on the Corporation.

1. Suppliers shall not offer to supply to the BGC, and the BGC shall not buy, appliances at prices lower than those at which those appliances are offered to other traders who are taking deliveries of similar sized loads.

2. Suppliers shall not offer to supply to the BGC, and the BGC shall not buy, appliances unless the manufacturer or importer is also prepared to sell them to other distributors.

3. Manufacturers shall make available to the Office of Fair Trading details of all sales of appliances to each purchaser in any calendar month, and of any overriding discounts or other matters relating to the price paid by each purchaser.

4. The BGC shall permit any person or firm authorised by the Office of Fair Trading to investigate the basis of any charge to or payment by manufacturers and to have access to all relevant documents and records.

Section B—Profitability

This would apply solely to the Corporation.

1. The BGC should so conduct its appliance marketing activities as to produce a profit on turnover not less than that gained by comparable retail businesses, taking one year with another. In the event of disagreement as to the appropriate level of profit, the Secretary of State's judgment shall be conclusive.

2. Hire purchase finance, if this continues to be provided by the BGC, shall be treated as a separate activity in which interest shall be charged to the customer at the market rate.

3. The installation and servicing of domestic appliances shall be treated as a separate activity and shall be available, and charged at the same rate, for all appliances whether or not purchased from the BGC.

4. The BGC shall include a statement of its accounting policy for appliance marketing and for installation and contracting in its Annual Report. The matter set out in the Annex hereto should form part of this statement.

5. The auditors of the BGC shall include in their Annual Report a statement recording whether, in their opinion, it has carried out the policy set out in (1) to (3) above, and conformed to the statement of accounting policy called for in (4), and setting out their view on the adequacy of the work measurement system and other records used by the BGC for these purposes.

ANNEX

Accounting Policies

Allocation of costs and profits

The purpose of the separate results for operating activities shown in [insert appropriate reference] is to allow fair comparison of the profits of appliance marketing and installation and contracting carried out by the BGC with the profits of similar activities carried out by other retailers and contractors. All costs which are undertaken in pursuance of these activities have been charged to them in full, even if they are also relevant to sales of gas. The costs charged against sales of gas are therefore only those costs not normally incurred by a retailer or installer.

In particular the following costs have been calculated and allocated as set out below:

- (i) All advertising that features appliances is charged to Appliance Marketing unless the advertisement refers to appliances that are readily available through retailers other than the BGC and the advertisement gives equal prominence to any retailer mentioned therein, including the BGC.
- (ii) The cost of all space on premises where appliances are sold by retail which is used for the display, storage or sale of appliances is classified as an expense of appliance marketing. In calculating costs of space a notional rent charge reflecting the current market levels of the property in question is charged even if the premises are freehold or the actual rent is lower.

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