

of 1927 has led to certain manufacturing economies, such as the evolution of the V.P.O. machine, which was being installed in B.M.C. factories just before the war." The selling and administration expenses of the British companies remained at about the same level throughout the period 1927-39 because, we are told, B.M.C. brands were always sold in the face of competition. While B.M.C. agrees that some reduction in the level of its wholesale prices might have been made between 1927 and 1939 by reducing the profits of the manufacturers, we are told that "the result would have been to increase the profits of the wholesaler and/or retailer, only a proportion of the reduction being passed on to the consumer".

## CHAPTER 13 : CONCLUSIONS AND RECOMMENDATIONS

### SUMMARY OF PRESENT ARRANGEMENTS

193. At present about two-thirds of the matches supplied to the home market are home produced and one-third imported. Of the home production about 95 per cent. is controlled by B.M.C. (in which Swedish Match, with 30 per cent. of the Ordinary stock, is by far the largest single stockholder) and by its associates. Of the imports about 85 per cent. comes from Swedish Match and its subsidiaries, and is distributed in this country by members of the B.M.C. group. With minor exceptions, consisting principally of imports from Eastern Europe, B.M.C. is thus able, by reason of its agreement with Swedish Match, to determine the division of supplies for the home market between home production and imports<sup>(1)</sup>. The financial provisions of this agreement which may influence B.M.C.'s decision are described in paragraph 197 below. B.M.C. fixes the prices at which both its own home produced matches and Swedish Match's imported matches are sold; competition from the Eastern European imports mentioned above has so far since the war been too slight to affect materially the prices which B.M.C. fixes.

194. Exports of matches are small; they were valued in 1949 at about £225,000 and amounted to about 5 per cent. of home production. Virtually all the exports are by members of the B.M.C. group and their associates. Under the agreement with Swedish Match, members of the B.M.C. group are not permitted to export to or trade in any part of the world except Brazil, the Argentine, Colombia, Uruguay and countries of the British Commonwealth outside Asia. In addition to, and more important than, its direct exports, the B.M.C. group has interests in match manufacturing companies in some of these countries, from which it derives gross dividends of over £300,000 annually. It is, however, precluded under the agreement with Swedish Match from extending these interests into the territories to which, as mentioned above, it is not permitted to export. In return Swedish Match refrains from trading or restricts its competition in the territories which are open to B.M.C.

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<sup>(1)</sup> This is true in normal conditions. At present, as stated in paragraph 136, the Open General Licence for imports of matches has been withdrawn in consequence of the import cuts announced in March 1952 to deal with the balance of payments crisis, and imports are now subject to individual licensing. The effect on the level of imports and production in the U.K. of this change—which we assume to be temporary—cannot at present be estimated, but it clearly sets limits for the time being to B.M.C.'s freedom to determine the division of home market supplies between exports and home production. B.M.C. will of course be liable to pay to Swedish Match any compensation which may become due under the terms of the agreement as a result of reduction in imports due to restrictive licensing.

This qualification is relevant also to the views which we express in paragraphs 198, 202 and 215 (iii) below.

195. B.M.C. obtains the bulk of its basic machinery from manufacturers in Sweden, controlled by Swedish Match. Ancillary machinery, book match machinery and spare parts are made in this country by Chambon Ltd., in which B.M.C. holds a 50 per cent. interest, and in B.M.C.'s own machine shops. It has, however, been B.M.C.'s policy to leave research and most of the development work on machinery to the Swedes, with whom there is exchange of technical information.

## THE EFFECT OF THESE ARRANGEMENTS ON THE PUBLIC INTEREST

### 1. Matches

#### (a) Home Market

196. We have said that the Trading Agreement (British Isles) enables B.M.C. effectively to determine the volume of imports into the United Kingdom. In determining this B.M.C. no doubt is largely influenced by the financial provisions of this agreement which operates at present in the following manner.

197. The agreement prescribes that B.M.C. shall so arrange its price and general policy as not to exceed its quota of 55 per cent. of the joint home market sales of B.M.C. and Swedish Match matches, but B.M.C. denies that this provision has in any way limited its production or sales, and the agreement itself clearly contemplates that the quota may be exceeded by providing for compensation to be paid if this happens. The maximum compensation payable is £37,500 per annum which is reached in present circumstances when B.M.C. has exceeded 60 per cent. of the joint sales. Beyond this level, therefore, this provision by itself imposes no restraint on the further expansion of B.M.C.'s sales. Nor is the liability for this compensation likely to cause a reduction in the present level of B.M.C.'s share (about 67 per cent.), since the nett profit obtained by B.M.C. on its excess sales represents far more than £37,500. B.M.C. is, however, also liable to pay a further 1s. a gross on sales exceeding its average sales in the preceding three years<sup>(1)</sup>. The volume of B.M.C.'s sales rose sharply during the war when imports of Swedish matches were largely cut off, and B.M.C. has paid the compensation which this increase entailed. By this payment B.M.C. has in effect bought the right to maintain, subject to the annual payment of £37,500 already mentioned, its sales in future at about 12 million gross per annum, representing some 67 per cent. of the joint sales at the present level of consumption<sup>(2)</sup>. B.M.C. is thus able to maintain its increased share of the market at a relatively small annual cost; at the same time, the provisions in the agreement by which B.M.C. controls the distribution of imports of Swedish Match matches and fixes their price insure B.M.C. against any attack from Swedish Match on the share of the market it has thus obtained<sup>(3)</sup>.

198. B.M.C. has told us that, although it is still striving to increase its sales, it does not expect them to rise much further because in its view the total consumption of matches in the United Kingdom is unlikely to rise: that B.M.C. could therefore increase its share of this market only at the

(1) Since 1948 this has been qualified by a provision that if in any year B.M.C.'s sales fall below the three year average owing to circumstances beyond its control, the reduction will be disregarded for the purpose of computing the three year average for subsequent years.

(2) It represented of course a much higher proportion of the joint sales during the war, when consumption was reduced to about two-thirds of its present level.

(3) The obligation on Swedish Match to pay compensation if imports from Swedish Match sources exceed 45 per cent. of joint sales seems in present circumstances to be a safeguard in reserve.

expense of Swedish Match or of "competitive" matches: and that there will always be imported matches on offer cheaper than B.M.C. can produce them. (It also mentioned, as reasons restricting expansion of production in the immediate post-war years, difficulties in obtaining raw materials and labour, but these appear to be no longer of primary importance.) We are disposed to agree that the total home demand is unlikely to increase. B.M.C. could expand its production capacity sufficiently to enable it (if it could obtain the orders) to supply the whole, or almost the whole, of the home demand, but it is unlikely to attempt to do this so long as the Trading Agreements continue in force. If B.M.C. were to increase its sales over the three year average, it would incur an additional liability to Swedish Match of 1s. a gross. Apart from this, we think it unlikely that B.M.C., as sole agent of Swedish Match, could continue indefinitely to increase its share of the market at Swedish Match's expense, without putting an intolerable strain on the continuance of the agreement. While the agreement continues in force, therefore, B.M.C.'s sales are unlikely to increase<sup>(1)</sup>.

199. Competition from independent producers in the United Kingdom is insignificant. We have referred in earlier paragraphs to some of the factors which have helped to prevent the rise of any sizeable competition in this country. The first of these is the position in relation to machinery supplies: we deal with this in paragraphs 210 to 213 below. Another factor is B.M.C.'s past practice of attempting to stifle the competition of independently produced matches sold at a cheaper price by temporarily offering a special brand of matches of normal B.M.C. quality at reduced prices and in selected markets, thus avoiding the necessity of making any general reduction in its prices. We have described earlier how B.M.C. also entered into an agreement with the largest independent manufacturer in the years just before the war, which gave it complete control of that manufacturer's selling policy, and how at the same time B.M.C. began to acquire shares in the company concerned. At present, through its control of companies dealing in certain chemicals used in the manufacture of matches of which B.M.C.'s associates and subsidiaries have a virtual monopoly, B.M.C. is able to secure that its competitors are charged for these materials up to 77 per cent. more than the companies of the B.M.C. group. Bearing all these facts in mind, we see no prospect of any sustained increase in independent competition in the future.

200. It remains to consider the possibility of competition from independent imports. This is improbable except from Eastern Europe, because of the strength of Swedish Match in other manufacturing countries. We consider that it would be unwise to look to imports from Eastern Europe to provide significant or sustained competition. Their volume is likely to be determined less by commercial considerations arising from the market for matches than by much broader decisions of policy by the Governments concerned, including our own; and if they expanded to the point at which they seemed likely to threaten the monopoly of B.M.C. and Swedish Match, the possibility remains that Swedish Match might be able to deal with them by agreements similar to the pre-war agreement with the Russians.

201. Competition from lighters does not seem to have seriously affected the position of the monopoly, though it has no doubt restricted the possible expansion of sales of matches. Sales of lighters rose sharply when matches were scarce during the war, but have since declined, and are now only about half their war-time peak, though still higher than before the war. Lighters

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(1) See footnote (1) to paragraph 193.

last for a good many years, and it is not possible to say how far the present level of sales exceeds the demand for replacements and represents a continuing encroachment on the market for matches. The duty charged on lighters is heavy, and is at a flat rate per lighter, irrespective of quality and price, and this discourages the production of cheap, simple lighters of the war-time utility type.

202. Subject to any change which may result from renewed Government restrictions on imports<sup>(1)</sup>, we conclude that if the Trading Agreement (British Isles) is maintained, the division of the home market between imports and home production is likely to continue in roughly the present proportions. This arrangement operates to the advantage of the United Kingdom to the extent that it provides a supply of good quality matches for the consumer and gives B.M.C. an assured market for which it can plan its production. For this stability, however, a price has to be paid—first, the obligation assumed by B.M.C. under the agreement to continue to import a substantial part of the home requirements of matches and to make payments to Swedish Match in respect of B.M.C. matches sold in excess of its quota ; secondly, the absence of the stimulus to improve efficiency in production and distribution which competition would provide ; and, thirdly, the price which the United Kingdom consumer is charged for his matches and which B.M.C. is able to fix at a level that provides a comfortable profit for its highest cost plant (and, in all probability, for the Swedish Match exporters to this market also : see paragraph 49 (g)). The first point calls for no further comment, except to note that at present the payments are not as large as they were: we deal with the other two below.

203. Before the war there were considerable differences in the costs and profits of the three principal manufacturers in the B.M.C. group, whose accounts we have reviewed in Chapter 10 (paragraph 157 et seq), and these differences have become even wider since the war. Before the war the concentration of match manufacture and distribution in one great organisation does not appear to have produced the economies in operation which might have been expected. We are told that in the period from 1927 to 1939 costs remained stable. We have no evidence of any consistent policy of concentrating production on the lowest cost factories, except to the extent that in the years following the war they happen to have been situated in areas where labour was more readily available than elsewhere. B.M.C. has indeed only recently installed a costing system which enables it to measure and compare the cost of making the various types of matches in its different plants. Each manufacturer within the group maintains his own sales organisation and B.M.C. states that there is competition for orders between their selling staffs (though this is not, of course, accompanied by competition in price).

204. Against this must be set the fact, to which we have drawn attention in paragraph 165, that the manufacturing and distributive costs of the B.M.C. group have risen relatively little between the outbreak of war and 1950—the latest year for which we have costing information. This is no doubt attributable in some degree to circumstances outside B.M.C.'s control—the destruction by bombing of a high cost factory and the consequent concentration of Brymay's production in four factories instead of five, and the fall in selling expenses due to the sellers' market. Nevertheless it is an achievement for which B.M.C. must be given due credit.

205. The fact remains that there is still a large spread in the costs of different factories within the group. The highest cost manufacturer of the

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(1) See footnote (1) to paragraph 193.

three referred to above—Brymay—was also the largest; its total costs were substantially higher than those of the lowest cost producer. Only a small part of the difference between Brymay's costs and those of the other members of the group can be accounted for by the general overhead expenses which Brymay bears for the whole group.

206. The profit on sales of all three B.M.C. manufacturers whose costs were examined was very high before the introduction of statutory price control, and the profit of the two lower cost manufacturers is still very high having regard to the relatively slight trading risk. B.M.C. has told us that it is its policy to make as much profit as it can, and that in its view competition ensures that the prices charged are fair. Since it is clear that B.M.C. has taken all possible steps to eliminate competition, with marked success, and there is, in our opinion, virtually no competition in this trade, this safeguard is illusory, and it is not surprising that profits have been high.

207. We conclude that there is scope for the reduction of both costs and profits of B.M.C. and that it is unlikely that either would have remained as high as they have if there had been any effective competition. We do not accept the argument that since any reduction of prices which might result would probably be insufficient to permit a reduction of  $\frac{1}{2}$ d. a box, the smallest that can conveniently be made, it could not be passed on to the consumer. As pointed out in paragraph 155 there are means of giving the consumer the advantage of much smaller reductions than this.

(b) *Exports*

208. In considering the public interest in connection with this export reference, we have concerned ourselves only with the public interest of the United Kingdom.

209. Under the present arrangements with Swedish Match set out in the Trading Agreement (Overseas), B.M.C., though it is prevented from exporting to or setting up manufacture in a large number of important markets throughout the world, is conceded the sole right to manufacture and sell matches in Canada and Brazil, and is accorded considerable protection from competition by Swedish Match in the other territories open to it. We think that it is these market-sharing arrangements as much as any natural advantages of Swedish Match, which have brought B.M.C. to a position where it clearly considers that it would lose on balance from competition in world markets with this powerful monopoly. We have no evidence which would justify us, as matters now stand, in differing from B.M.C.'s view of its prospects. It appears to us extremely doubtful whether the earnings of the United Kingdom from the match trade would be increased if B.M.C. became free to break into the markets, at present closed to it, which have for many years been the preserve of Swedish Match, and was at the same time faced with strenuous competition from Swedish Match in its existing markets, all the more so in view of the extent to which B.M.C. depends on Swedish Match for its machinery and the attitude of mind which has prevailed over the last 25 years among those directing the policy of B.M.C. In these circumstances, we cannot say that the Trading Agreement (Overseas), considered by itself, is operating against the public interest. Whether it may do so in the future depends on many factors, among them any changes in other aspects of the relationship between B.M.C. and Swedish Match, and the attitude of overseas Governments to restrictive practices in the match trade.

## 2. Match-Making Machinery

210. It is clear from the history of the negotiations in which Swedish Match, Diamond and B.M.C. have been concerned over the past 25 years that control over the manufacture of match-making machinery has been regarded as an essential means of preserving the monopoly in match manufacture. The main features of the trade are that there are no important patents; that the basic machines have a very long life; that the regular demand is in consequence principally for ancillary machines, adaptations and improvements of the existing basic machines and for spare parts; and that the total world demand is limited and sporadic so that it would be difficult for any concern to exist by the production of this machinery alone.

211. The present formal agreements between B.M.C. and Swedish Match about machinery provide for "full" interchange of technical information and give B.M.C. the right to obtain Swedish Match machinery on the most favourable terms. They also preclude Swedish Match from supplying machinery to independent match manufacturers in the United Kingdom and in B.M.C.'s markets abroad. B.M.C.'s policy is to rely on Swedish Match for research, development, design, and in the main for manufacture, although its engineers have co-operated in developing improvements and it has arranged for Chambon to manufacture ancillary machinery, parts of the basic machines, and book match machinery in this country. This policy B.M.C. justifies on the ground that the total requirements of match machinery are so small that the economies of series production can be obtained only by concentrating the bulk of its orders on the Swedish factories.

212. There is undoubtedly force in this argument. On the other hand, so long as the United Kingdom industry is content to be largely dependent for up-to-date machinery on makers controlled by Swedish Match, it is likely to be difficult for this industry to pursue a genuinely independent and competitive policy in the sale of its matches. Even if, in the absence of market-sharing arrangements for matches, Swedish Match were willing to continue to supply British match manufacturers with machinery in order to avoid the danger of their building up their own machinery industry which might supply competitive match manufacturers in other countries, it may be doubted whether it would continue to make available its latest and most efficient machines, though its attitude would no doubt be influenced by the fact that it holds a 30 per cent. interest in B.M.C.

213. In the light of the present arrangements it is not surprising that there are no independent manufacturers of specialised match-making machinery on a substantial scale in this country. Research and development here have been discouraged, and match manufacturers outside the B.M.C./Swedish Match combination are unable to obtain the best Swedish machinery for making wooden matches, although it is not protected by patents. There are, it is true, independent makers of match machinery outside the United Kingdom and we are not competent to express an opinion on the relative merits of their machinery and the Swedish machinery. We note, however, that B.M.C. maintains that the Swedish machinery is superior to any other and attaches the greatest importance to having continued access to it. We note also that U.M.I., since its association with B.M.C., has installed machinery obtained from B.M.C., although it has had to be content with secondhand B.M.C. machines and the latest Swedish types appear to have been reserved for B.M.C.'s own factories. Exports of match-making machinery from this country have been confined to a few ancillary machines of kinds whose use is not limited to the manufacture of matches.

## CONCLUSIONS ON THE PUBLIC INTEREST

214. The arrangements we have described above form a complete and integrated monopoly. They must, as B.M.C. itself has repeatedly said, be judged as a whole; to single out particular parts for approval or condemnation would be unrealistic because they are all interdependent<sup>(1)</sup>. We have given full weight to the arguments which B.M.C. has used, and which are set out in Chapter 12, to show that the system was built up to prevent the possible collapse of the British match industry, and that it has been advantageous not for the shareholders of B.M.C. only, but also for the nation. We are not called upon to say whether these arrangements were right when they were made in the 1920's and 1930's; we are required to decide whether or not they now operate, and are likely in future to operate, in the public interest of the United Kingdom judged by the criteria laid down in Section 14 of the Act. We find that despite the advantages to which we have referred and despite what we have said in paragraph 209 about the Trading Agreement (Overseas), the system as a whole operates, and is likely to operate, against the public interest as respects the supply both of matches and of match-making machinery. The modifications in the present arrangements which B.M.C. has said that it is willing to make (see Appendix 10) do not affect our conclusion because we do not think that they would in practice result in any significant alteration of the present mode of operation of the arrangements.

### Grounds for Conclusions : 1 Matches

215. We base our conclusion on the following main grounds :—

- (i) the absence of competition between manufacturers within the United Kingdom and between the United Kingdom manufacturers and the principal importers to this market has resulted in profits and prices being higher than they would otherwise have been, and at certain times this has also been true of costs;
- (ii) the development of competition by independent British match manufacturers has been hampered
  - (a) by their being unable to buy machinery from manufacturers controlled by Swedish Match—the main source of supply in Europe—as they are in consequence of the agreements between B.M.C. and Swedish Match;
  - (b) by the practice which B.M.C. has at times adopted in the past of temporarily underselling competitors in particular areas while maintaining the general level of its prices; and
  - (c) by B.M.C.'s practice of charging its competitors higher prices for certain materials of which it controls the distribution;
- (iii) subject to the limitations imposed by the withdrawal in March 1952 of the Open General Licence for the import of matches<sup>(2)</sup>, the decision as to what proportion of the United Kingdom market for matches is to be supplied from home manufacture and what proportion from imports rests, in effect, with B.M.C.;
- (iv) payments are made to Swedish Match as a method of reducing supplies of foreign matches to this country.

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<sup>(1)</sup> For example, it seems questionable whether, if the Trading Agreement (British Isles) (including the provisions about machinery) were dissolved, the Trading Agreement (Overseas) could be retained.

<sup>(2)</sup> See footnote <sup>(1)</sup> to paragraph 193.

## **Grounds for Conclusions : 2 Machinery**

216. As regards machinery, we base our conclusion on the effect which the arrangements referred to in paragraph 215 (ii) (a) have on the match industry, and also on the ground that it is against the public interest that B.M.C. should make payments to prevent the supply of match-making machinery by machinery manufacturers, as they are still doing in the case of Jokela.

### **RECOMMENDATIONS**

#### **(i) General**

217. Having reached these conclusions, we proceeded as required by Section 7 (2) of the Act to consider what action might be taken to remedy or prevent the dangers to the public interest. We set out in paragraphs 222 to 227 our recommendations for such action.

218. The principal cause of the undesirable results which we have found is the absence of competition due to the monopoly position of B.M.C. and its partnership with Swedish Match. We have considered whether this situation is capable of being remedied. It cannot be expected that B.M.C. left to itself will make any move in the direction of introducing competition. The present arrangements suit the interest of B.M.C.—and in all probability of Swedish Match—and there is no reason from the point of view of B.M.C. itself, why it should seek any fundamental change. In any event, it seems unlikely and unnatural that B.M.C. should seek to destroy a partnership which has lasted so long and with such favourable results to the two partners. Moreover, although Swedish Match does not hold a controlling interest in B.M.C., its holding is large, and its position as by far the largest single stockholder gives it the opportunity to exercise a preponderating influence in B.M.C.'s affairs.

219. Any independent manufacturer would have little chance of building up his business to a position from which he could offer a real challenge to B.M.C. in the open market; nor, when B.M.C. already has the factories and machinery capable of supplying such a large proportion of the home market, would it be reasonable in present conditions to encourage the building of new plants on any substantial scale. To obtain effective free competition, it would therefore be necessary not only to sever the connection between B.M.C. and Swedish Match but also to break up B.M.C. into two or three independent and competing concerns and to deal with B.M.C.'s interest in companies controlling the supply of raw materials in such a way as to secure supplies on equal terms to each of these concerns. We are not satisfied that this, even if practicable, would bring benefits to the public commensurate with the disturbance that would be caused, or that its results would prove lasting. There is, indeed, some force in B.M.C.'s argument that in almost all producing countries a monopoly has been formed, and that such, in some form or other, is probably the natural organisation for this trade.

220. If the main advantages which Swedish Match derives from the agreements were taken away, it appears to us that Swedish Match would insist on (and would be strong enough to obtain) at least some substantial revision of the Trading Agreements affecting both home and export markets, to the detriment of B.M.C.'s interests. Accordingly any action which nullified the provisions of the Trading Agreements which we regard as objectionable from the point of view of the public interest (i.e. the public interest of the United Kingdom), such as the quota and compensation arrangements, would

in our opinion be likely to lead to the termination of the present agreements. In a relatively small industry such as this, which has little prospect of further expansion, there is less justification for risking such repercussions than there might be in a more important and expanding industry in which much harm might be done by allowing restrictions of this nature to continue. We are, therefore, not satisfied that, on balance, we should be justified in making any recommendation which would involve a serious risk of the present agreements being terminated<sup>(1)</sup>.

221. The alternative is, in our opinion, to set up machinery for regulating the monopoly in the public interest. This would involve intervention by the Government, either directly or through a body acting for it or under its general direction.

## (ii) Matches

222. We recommend that the Government should assume for the future a definite and continuing responsibility for the supervision of the costs and prices of manufacturers, importers and distributors of matches. This supervision should be a great deal stricter than the price control which was exercised by the Board of Trade during and after the war. Maximum prices should be fixed for both home produced and imported matches at all stages of distribution. We do not attempt to lay down a precise formula for determining manufacturers' prices, but we think it important that the price controlling authority should observe the following principles:—

- (a) subject to (f) below, prices should be based on the costs of the lowest cost United Kingdom producer<sup>(2)</sup> (ignoring for this purpose any producer whose output is very small), to which should be added a reasonable margin of profit ;
- (b) in view of the virtual monopoly of the seller costs for this purpose should include only such costs of selling and distribution as are necessary to secure efficient distribution ;
- (c) raw materials purchased from subsidiaries or associated companies should be included in the costs at prices which would yield to those companies no more than a reasonable profit ;
- (d) payments under any pooling arrangements between companies in the B.M.C. group and in the British Match Makers' Association and payments by B.M.C. to Swedish Match under the Trading Agreement should not be regarded as costs for the purpose of fixing maximum prices ;
- (e) in determining what would be a reasonable rate of profit to be added to costs, regard should be paid to the low trading risk which its monopoly position assures to B.M.C. ;
- (f) some account should be taken of any lower prices at which comparable matches are available from overseas ;
- (g) within limits set by the requirements of the revenue, the rates of duty should be adjusted so as to bring manufacturers' and importers' maximum prices, determined in accordance with the foregoing principles, to a level on which a convenient maximum retail price per box can be based ;

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(1) See addendum by Professor Allen, Mr. Gallie and Mrs. Robinson.

(2) For this purpose each factory in the B.M.C. group should be reckoned as a separate producer.

- (h) maximum retail prices should be fixed for single boxes and, if necessary to secure to the public the advantage of savings in wholesale prices, for such larger quantities up to dozens as might be convenient having regard to the units of coinage ;
- (i) costs and maximum prices should be reviewed at regular intervals in such a way as to allow some benefit to the industry from savings in cost due to increased efficiency during each period.

223. We make the following further recommendations on subsidiary matters:—

- (a) the prices charged for materials by companies controlled by B.M.C. should be the same to all United Kingdom match manufacturers, subject only to a reasonable extra charge for purchases in small quantities, which should also be uniform for all buyers ;
- (b) the modifications of the present arrangements which B.M.C. has said it is prepared to make, and which are numbered 1 and 3-7 in Appendix 10, should be made. We make no recommendation about item 8 of Appendix 10—the discontinuance of the internal and British Match Makers' Association pools—because we think that the matter will in any event be adequately dealt with by our recommendation at paragraph 222 (d) above.

224. Finally, we recommend that full details of changes in the existing agreements and in the financial relationships between match manufacturers and match importers in this country, and between them and match manufacturers or exporters in overseas countries, and any new agreements, formal or informal, between such parties, should be lodged with the Board of Trade. We also recommend that the Board should receive copies of the annual statements of settlement between B.M.C. and Swedish Match showing the proportion of supplies made to the home market by each company and the compensation incurred. We make these recommendations for the purpose of enabling the Government to have the full information which in our opinion it ought to have with regard to this industry, in view of the exceptional degree of monopoly, embracing both imports and home produced supplies, which exists in it.

225. While these measures will afford a degree of protection to the consumer, we recognise that they provide only a partial remedy and will not affect directly the market-sharing arrangements in the United Kingdom. We have, indeed, considered other possible remedies of a more drastic and comprehensive nature, such as the establishment of a wholesaling organisation under public control which would become the sole purchaser of matches in this country, both from manufacturers and importers, and would oppose the power of a monopoly buyer to the monopoly seller. We do not recommend any such step, not only because it would be inconsistent with our view that on balance we should not be justified in making any recommendation which would involve the ending of the present agreements with Swedish Match, but also because we think that it would lead to still greater rigidity throughout the trade, and we are not satisfied that it would result in cheaper supplies of matches to the public<sup>(1)</sup>.

### (iii) Machinery

226. We welcome B.M.C.'s statement (paragraph 97) that it is now making more of its machinery in this country than formerly, and that its policy is

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<sup>(1)</sup> See addendum by Professor Allen, Mr. Gallie and Mrs. Robinson.

to increase the amount of work done here in improving and modifying machines. We recommend that the obligation to notify the Board of Trade in the event of any new agreement or any change in existing agreements or financial relationships should apply also in the case of match-making machinery.

227. We further recommend that:

- (a) the payments made by B.M.C. to Swedish Match as B.M.C.'s contribution towards the sums paid to Jokela to refrain from supplying machinery should cease, and that no further agreements of this kind should be entered into ;
- (b) B.M.C.'s offer to release Swedish Match from its undertaking not to manufacture match-making machinery in the United Kingdom (Appendix 10 (2)) should be accepted.

R. H. A. CARTER (*Chairman*)

G. C. ALLEN (subject to the  
Addendum below)

C. N. GALLIE (subject to the  
Addendum below)

FREDERICK GRANT<sup>(1)</sup>

I. C. HILL

JOAN ROBINSON<sup>(1)</sup> (subject to the  
Addendum below)

H. L. SAUNDERS

GORDON STOTT

JOSIAH WEDGWOOD

R. E. YEABSLEY

WILLIAM HUGHES (*Secretary*)

2nd October, 1952.

### ADDENDUM

228. We have signed the Report of the Commission subject to this note of dissent because in our view the remedy proposed is hardly in accord with the condemnation (with which we agree) of the practices of this monopoly. We accept the contention that price control would provide some safeguard against the abuse of monopolistic powers, but we have grave doubt whether price control can be administered so as to stimulate improvements in the industry or seriously to disturb the entrenched position of this monopoly. We agree that a more drastic remedy may involve some risks, particularly in the international sphere, and that it is impossible to foresee all the consequences that would follow the abolition of the complicated structure created by the British match producers in association with

(1) Mr. Grant and Mrs. Robinson were members of the Commission at the time of signature of this report but have since resigned.

the Swedes, but we think that on balance, any risk to the public interest of introducing a drastic remedy is less than the disadvantage of allowing the arrangements to persist substantially as they are at present. At this juncture in our economic fortunes, when the utmost efficiency and enterprise in industry are called for, we cannot believe that it is in the public interest that an industry should surrender the chances of expansion in return for a guarantee of the status quo.

229. Under normal conditions B.M.C. by agreement with Swedish Match decide, in effect, what proportion of the home market is to be supplied by home production. In our opinion this is wrong. If for any reason a limit is to be set to imports, this should be done by the Government under specific powers provided by Parliament and not by the match manufacturers themselves. In certain circumstances the continuance of the present agreements may even go some way towards defeating the intentions of the Government. Thus, for the purpose of saving foreign exchange, the Board of Trade on March 12th 1952 revoked the open general licence for matches and replaced it by a system of individual licences. The effect of this action may well be a reduction in the import of matches during 1952 as compared with that during the previous year. This would not mean, however, that a saving in foreign exchange would be made to the extent of the reduction in imports, as B.M.C. would continue to pay compensation. Indeed, should individual licensing continue and result in B.M.C. having to increase its output to compensate for a substantial fall in imports, this might actually result in increased payments by B.M.C. as happened during the war. (See paragraph 56.)

230. We suggest therefore that the quota arrangements between B.M.C. and Swedish Match which settle the proportion of the market to be served by each party should be abolished, and this of course implies that the compensation payments to the Swedes should go also. But the abolition of these arrangements would not in itself ensure vigorous competition between B.M.C. and Swedish Match. We agree with the majority that it would be inexpedient to try to introduce such competition by breaking up B.M.C. into separate undertakings, and optimistic to expect new competitors with B.M.C. to emerge in this country. Competitive conditions are not likely to appear unless the Government takes deliberate steps to promote them.

231. We believe that this could best be done by the creation of a purchasing agency sponsored by the Government and endowed by Parliament with adequate powers to act as exclusive purchaser of all matches manufactured in or imported into the United Kingdom. Such a body should be required to ensure the supply of matches to the public at the lowest possible cost, to eliminate unnecessary costs of distribution and to stimulate the efficient production of matches in this country. To this end it should be given powers to obtain full information on costs from British manufacturers. It should operate by obtaining orders from buyers and placing contracts with the lowest cost producing units in the United Kingdom and with importers in such a way as to develop the advantages of competition between the various suppliers.

232. An alternative procedure, aimed at promoting competition rather than a more thorough-going rationalisation of the industry, would be to confine the activities of the agency to the trade in imported matches. The agency would then operate as a competitor of B.M.C. for sales in the home market, and the results of this competition would reveal themselves in the relative shares of the home market secured by B.M.C. and the agency.

233. These proposals would of course provoke repercussions on the whole interdependent system of the B.M.C.-Swedish Match agreements, and so would in some cases involve Commonwealth and international considerations which go outside our terms of reference and could only be weighed by the Government. For this reason we do not put our proposals forward as a definite recommendation: but we do recommend that the Government should examine them further in the light of these various considerations, to determine whether the public interest would not be better served by the adoption of one or other of them.

G. C. ALLEN

C. N. GALLIE

JOAN ROBINSON<sup>(1)</sup>

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<sup>(1)</sup> See footnote on page 93.