

CHAPTER 14 : CONCLUSIONS AND RECOMMENDATIONS ON THE PUBLIC INTEREST

I. The Approved List System

278. The principal practice with which we are concerned is the use of the Approved Lists to ensure that all but a very small proportion of imported timber passes through the conventional channels of the trade—that is to say from the shipper by way of at least one agent and one importer to the user. Another purpose is to secure that those who set up as agents or importers have the intention of remaining in the trade, and the resources and experience to do so. A third purpose is to keep the smaller merchants from importing. All these purposes have a common end—to preserve stability in the trade. The machinery by which they are attained is as follows:—

- (a) all importers on the Lists undertake to buy only through agents on the Lists ;
- (b) all agents on the Lists undertake to negotiate sales only to importers on the Lists and in practice act only on behalf of shippers who confine all their sales in the United Kingdom to such importers ;
- (c) entry to the Lists is controlled by those already on them, the policy being to exclude from the importers' Lists merchants who buy less than certain annual quantities and all users.

279. In practice there are exceptions ; for example, a few listed importers are themselves users, and in certain special cases importers may deal direct with shippers (in one section provided that a commission is paid to an agent whether or not he performs any service). There is no machinery for detailed enforcement of the obligations undertaken by the concerns on the various Lists, and minor breaches of the undertakings seem to go to some extent undetected or to be winked at by those who administer the scheme. It is claimed that merchants who comply with the requirements are readily admitted to the Lists and that the administering committees exercise their discretion in favour of applicants, but in the absence of detailed records we cannot say how consistent this policy has been. There is some suspicion and resentment among those who are excluded from the Lists and among those who have been struck off the Probationary Lists for failing to keep up their turnover ; but this is no doubt an inevitable concomitant of any scheme by which a group of traders seek to regulate methods of trading to the disadvantage of others, particularly when such matters as the criteria for admission to the Lists and the grounds of rejection are not disclosed.

280. The T.T.F. have pointed out that, while any trader within the system must conform to it, no attempt is made to interfere with those who wish to trade outside it. We do not think, however, that this means much in practice, since a shipper, agent or importer must be either wholly in or wholly out, and it is clear that outside the system shippers or agents are excluded from the principal market and few supplies are available to importers or users. In short, the system has certain elements of flexibility, but these appear to be no more than are needed to permit smooth working and, in practice, they do not seem to have impaired its effectiveness in ensuring the desired pattern for by far the greater part of the trade in imported timber.

281. Apart from action taken by the Government during the period of war-time and post-war control, we have found no evidence of any attempt on a national basis to fix prices or to regulate the trade by quotas. It has been generally agreed by our user witnesses that there is competition in price between their suppliers.

282. The Approved List system grew up first in the softwood trade in the 1920's and had become fully effective in that section by the middle 1930's. Plywood, a relatively new trade, seems to have settled down fairly quickly into the same pattern as softwood, and here also the List system was firmly established by the mid-1930's. No doubt the comparatively small number of traders involved made this section of the trade easier to organise. In hardwood the trade before the war appears to have differed from the softwood and plywood trades in that there was extensive direct buying both by users from shippers and their agents and by merchants from shippers: the Approved List system was not established until 1950.

283. During the war years the whole trade was subjected to close and detailed regulation by the Timber Control, which was staffed predominantly from the timber trade and was careful to preserve the customary trade channels. It was some years after the war had ended before this detailed control was gradually relaxed, and the prolonged period of control undoubtedly strengthened further the conventional channels of trade. Shortage of foreign currency, particularly dollars, still necessitates severe limitation of consumption of softwood and certain types of hardwood and, for this reason, although the trade is otherwise now free from any substantial measure of Government control, the circumstances in which the Approved List system is operating to-day are very different from those in which it grew up before the war. The changed conditions have favoured the tightening up of the system; indeed, the virtual stoppage of supplies of hardwood from America has, more than anything else, made it possible to apply the system for the first time to the hardwood section of the trade.

284. It seems clear from the evidence that the system of the Lists is generally accepted by the timber trade and its customers. We have naturally enough had little criticism of the system from traders who themselves are already on the Lists, though we note (in paragraph 241) the views of one or two listed importers who are opposed to it. We have recorded there, too, the criticisms which have been put to us by merchants who have failed to gain admission to the Lists, the most usual reason being probably that their turnover was too small; but we have formed the impression that most of these critics would be content if the rules were altered so as to admit them to the Lists and they would then have no further objection on grounds of principle.

285. The great majority of users appear to be ignorant of, or indifferent to, the system, because they are satisfied that the most economical and efficient way of obtaining their timber is to buy it from merchants, and it does not matter to them how the merchant obtains his supplies. There is, however, an important minority of users, particularly in the furniture and packing-case trades, who consider, from their past experience of direct trading, that they could buy their supplies more economically direct from the shipper or his agent. Many of these users are strongly opposed to the whole system.

286. The principal shippers of softwood and plywood, although at times they have opposed the Lists and have been persuaded with difficulty to agree to them, appear later to have been satisfied to co-operate with the United Kingdom importers, and their attitude in recent years seems to have been generally favourable. The shippers of hardwood, who are on the whole less well-organised, were not consulted about the system at all.

287. The reason why the system is so generally accepted is no doubt because it enforces channels of distribution which would in any event be used for a high proportion of the trade in softwood and plywood, if not in hardwood. The services of the agent and the importer are real and in the majority of transactions indispensable. Further, for those on the Lists the safeguards which the system provides against any attempt by their suppliers to deal direct with their customers or *vice versa* may well compensate them for the restrictions which it imposes on their own freedom to trade.

288. The objections to these arrangements—most of which appear in the earlier chapters (particularly chapter 12) of our report—may be summarised as follows:—

- (i) They have the effect of restricting the number of agents and importers who are able to deal effectively in imported timber, and tend to make the trade at the point of importation a closed shop. This restricts competition and may thus in turn lead to an enhanced price level.
- (ii) A degree of rigidity is introduced into the structure of the timber trade itself. Barriers are set up against the non-importing merchant who wishes to start importing and against the importer of one class of timber who wishes to start importing another class. Thus the ability of traders to expand and change the character of their businesses at will is hampered, and the introduction of fresh resources from outside the trade is hindered.
- (iii) Users of timber are forced to buy through the conventional channels of the trade and are prevented from choosing any other method of purchase which might seem more convenient and economical to them.

289. The answers put forward by the trade to these objections may be summarised as follows:—

- (i) Though the Lists may theoretically limit the number of agents and importers, they do not in fact restrict competition in the trade. There is a sufficient number of both on the Lists to ensure that prices are highly competitive.
- (ii) It is not in the interest of users and in the national interest that persons should be treated as agents and importers who are without suitable experience and sufficient financial standing to enable them to provide the services expected.
- (iii) Generally speaking, users could not buy more cheaply if they went outside the conventional channels, and they delude themselves if they think they could. Possibly a few of the largest users could make some saving by buying direct, but their intervention in the market would raise the prices which the rest of the trade would have to pay.

290. The principal positive arguments advanced by the trade in favour of the system are:—

- (i) The United Kingdom would not be able to obtain its overseas supplies of timber on such favourable terms unless the purchasing were concentrated in the hands of a limited number of experienced buyers willing to buy general specifications.

- (ii) Without it, importers could not afford to take the risk of holding stock, investing capital in sawmills, and otherwise putting themselves in a position to provide the distributive services which users expect.

The Effect of the System on Prices

291. We are satisfied that there is competition among agents, among importers and between importers and non-importing merchants. There is no form of price ring on a national scale; we deal with certain local arrangements in paragraph 302 onwards. This is not to say that if the Lists did not exist and everyone who wished was free to import, this freedom might not have some influence on the level of prices. The T.T.F., for their part, have sought to show that this influence would be in an upward direction. They say that, without the Approved List system, the general level of timber prices would be higher because if a larger number of buyers, whether users or merchants, were able to compete for supplies from abroad, they would bid prices up against each other. This argument does not seem to have much validity in a trade in which, on the T.T.F.'s own showing, there is keen competition between importers.

292. The T.T.F. have also placed much weight on the argument that, if users were able to buy direct from shippers or agents, they would offer higher prices for the limited range of grades and sizes which they wanted, and that this would enable shippers to obtain higher prices for the whole of the wider range of qualities and sizes bought by importers. We cannot accept this reasoning: though the price for particular lots might well be higher, the price of others would be lower, and we see no reason to suppose that the average price paid would be raised. In any event, though no doubt importers on the whole are willing to take a wider range of specifications than users, we doubt whether the difference in the range of specifications bought by a large user and an importer is as great as has sometimes been suggested. The importer, no less than the user, will try to obtain from the shipper, even at some extra cost, those specifications which suit his particular market best and to leave with the shipper those which he cannot so readily sell.

293. We are therefore satisfied that the price level of imported timber would not be enhanced if the Approved List system did not exist; we think, on the contrary, that the tendency would be for it to be generally lower. We note that on occasions before the war when the Approved Lists were under discussion with European shippers, the point was made that their maintenance would have the advantage to the shippers of maintaining "stability" and preventing the prices which they could obtain from being spoiled; and the H.I.S. have sought to justify the introduction of Lists in their trade since the war on the ground that direct buying before the war had led to price-cutting. We think that in general this represents the correct view of the effect of the Approved List system on the price level of imported timber.

294. It is harder to say how significant would be any reduction in the price of imported timber which might result from allowing merchants and users to buy directly from shippers or agents when they wished. We are satisfied that the agent and the importer each performs useful functions in the import of timber and that the structure of the trade as it has grown up is naturally suited to handle economically the requirements of the great majority of users. For this reason we believe that, even without the Approved List system, most timber would continue to be imported through

the same channels as at present. There would, however, be some users who would prefer to buy directly from agents or shippers, and we do not think that they should be prevented by the organised timber trade from exercising their preference. Many of them have had past experience of direct buying and they are in the best position to know how they can obtain their supplies most cheaply. It seems to us particularly incongruous that a system which places such insistence on the need for large units in the timber trade itself, and is prepared to keep small ones out of the import trade, should query the need for direct access to the import trade by large manufacturing units. Such units are becoming increasingly characteristic of the user industries from which comes much of the criticism of the Lists.

The Effect of the System on Stock Holding and the Provision of Services by Importers

295. We cannot accept the argument that without the Approved Lists importers would be unable to provide the services which users expect of them. The services which importers provide seem to vary greatly. Many importers hold extensive stocks in their yards, own sawing and planing mills, and carry out all the distributive functions of the non-importing merchant. Some, on the other hand, seem to have little distributive organisation and before the war (though perhaps to a less extent to-day) were in the habit of selling a substantial proportion of their imports before they were landed without taking them into stock. We have noted also in this connection the T.T.F.'s statement (in paragraph 250 above) that the pressure in recent years has been on shippers to cut the timber before importation to the size the user requires. Dealers in any commodity sold on world markets run great risks from price fluctuations, and we have had no evidence to show that timber importers in this respect are in a different or more vulnerable position than the importers and wholesalers of other commodities, or that there are circumstances peculiar to the timber trade which justify a special measure of protection. In the timber trade itself, the non-importing merchants also carry stocks, often own sawmills, and provide services sometimes more comprehensive than those which importers provide. They do this, not only without the protection of an Approved List, but often in direct competition with the importers from whom they have to buy their supplies. Some large users are also equipped to hold their own stocks and to saw, season and prepare the timber they use.

296. The T.T.F. have argued that if shippers or agents were free to sell direct to the importers' customers, the importers' position would be seriously undermined. For our part, we see no reason why the importers, who would then be in much the same position as the non-importing merchants now are, should not adjust themselves to this situation as those merchants appear to have done.

The Position of the Agents

297. The arguments for the Approved List system are based almost entirely on its alleged necessity for the importers. We have had no evidence to show that the protection which it affords to the agents is necessary. Apart from the general argument of stability, the sole justification which has been put forward for it as affecting the agents is that by the exclusion of unsuitable candidates from the agents' Lists, some safeguard is provided for purchasers in the United Kingdom against the risk of entering into transactions

which may turn out unsatisfactorily. But, as the President of the T.T.F. himself said in evidence, "If you get a good agent, he does a good job for the importer. If you get a bad one, it is not long before he finds his true position in the trade, which is outside it." Given this process of natural selection, together with the care which a shipper will take in his own interest to choose a suitable agent, we see no necessity for the Lists, so far as the agents are concerned.

Administration of the Approved List System

298. We have recorded certain criticisms of the administration of the system, mostly from firms who have failed to secure, or who have had difficulty in securing, admission to the Lists. Though there are undoubtedly some weaknesses (mostly not incapable of remedy), we have no ground, taking the system as it is, for concluding that it is being administered with any deliberate partiality. Our recommendations in paragraph 301 are not based on any such conclusion.

Conclusions on the Public Interest and Recommendations

299. Timber is an important raw material for a large number of industries and is used by many more for packing. It accounts for something like 5 per cent. of the United Kingdom's total expenditure on imports. It is important, therefore, that the machinery of importation should be such as to secure adequate supplies, when and where they are needed, as cheaply as possible.

300. We have considered in the preceding paragraphs the arguments which have been put to us to show that the Approved List system is necessary for this purpose, and we have given the reasons why we do not accept them. We doubt whether, at any rate in recent years, the system has had any very pronounced effect, except in the case of hardwood, in determining the channels of trade; if it had not existed, the great bulk of timber imports (again excepting hardwood) would probably have been handled in much the same way as they have in fact been. We cannot say that the restriction of competition which is inherent in the system has raised to any substantial extent the price of timber to industrial users, or of houses, furniture and other articles to consumers. Nevertheless, the tendency of the system has been in the direction of increasing rigidity; and as a result the structure of the trade has grown into, or been forced towards, an inflexible, conventional pattern. As we have explained in paragraphs 282 and 283 above, these tendencies have been strengthened by conditions during and since the war; the system is more firmly established now than it was in the thirties, and we think that it may well become even tighter in the future. We believe that the knowledge that their customers had always the alternative of direct buying open to them would be a healthy stimulus to agents and importers, and that the freer channels of trade and the fuller competition, which would exist if all merchants and users were free to buy from shippers, agents or importers as they judge best, would in the long run make for lower prices to the ultimate consumer and the more effective employment of resources in distribution.

301. What appears to us objectionable is not so much the Lists themselves as the agreements and undertakings by traders on the Lists to deal only with each other upon which the system rests. Our conclusion is that

these agreements and undertakings operate against the public interest. We recommend that they should be abrogated and should not be replaced by any other arrangements or undertakings having similar effects.

II. Local Price Lists for Softwood

302. At the present time price lists are issued by Associations of importers or importers and merchants in four areas—the South Coast (which in practice means Sussex), the West Country (Devon and Cornwall and parts of Somerset), Northern Ireland, and Scotland. Before the war similar lists were issued by the local Associations in at least three other areas—Hants. and Dorset, Bristol and district, and East Anglia—but these were discontinued before or at the outbreak of war.

303. The lists are stated to be guides to the prices to be charged, and in none of the areas where they are at present used are they supported by binding agreements or arrangements for enforcement. They are said to be mainly useful for pricing sales of small quantities. We note, however, that the bulk of imported softwood supplied in Northern Ireland is sold at the list prices and that in the lists of other areas prices are quoted in pounds per standard as well as in pence per linear foot. The lists are also said to provide a protection to purchasers who, as often happens, neglect to agree a price when ordering their timber, though it should be noted that the lists are not available to purchasers.

304. The T.T.F. take no responsibility for these lists, which are the sole concern of the area Associations that issue them. These Associations, in evidence before us, stated that the trading conditions in their areas were different from those in the rest of the country; there was a high proportion of small sales, many districts were remote, and turnover was slower than elsewhere. These differences, they argued, made it convenient to use pricing guides in their areas. Competition from firms outside those areas, to whom the guides were not issued, was possible and would prevent unduly high prices being obtained for substantial business. In the main timber trading areas, the Federation told us, competition between merchants and importers was so keen that no sort of agreement upon price lists would be feasible.

305. We note that, although the parties to these price arrangements are in general under no obligation to observe the prices in the lists as minimum prices, there was such an agreement among the Scottish importers for a time when the market was falling in 1952 and there is clearly a certain degree of moral pressure on members of the Associations to observe the list prices. The prices themselves do not appear to follow the general level of the market closely.

306. Over most of the country no price lists of this kind exist, and in three of the six areas where they were in use before the war they were abandoned in 1939 and have not since been revived. The present tendency appears, therefore, to be against using lists of this kind, and we think it likely that this tendency will continue and the significance of the lists will be reduced if the Approved List system is abolished, as we have recommended. In these circumstances, we do not consider it necessary to record any finding in relation to the local price lists in the areas where they still exist. If, however, the present tendency were reversed and such price lists were introduced in other areas, or if the present lists came to be supported

by binding agreements or sanctions, a new situation would be created and we consider that, in that event, the whole matter should be re-examined and the bearing of the new situation on the public interest determined.

R. H. A. CARTER (*Chairman*)
G. C. ALLEN
C. N. GALLIE
I. C. HILL
H. L. SAUNDERS
GORDON STOTT
JOSIAH WEDGWOOD
R. E. YEABSLEY

WILLIAM HUGHES (*Secretary*)

23rd July, 1953.