

had had about its future prospects which were threatened by competition arising from the entry of GKN into the manufacture of constant velocity joints. Because of the far greater resources of GKN and the consequent ability of BRD to run at a loss for a considerable time if necessary, Birfield had been convinced that, as had happened in propeller shafts, the loss of part of its market for constant velocity joints to GKN was inevitable. Under the merger, the Birfield investment in money and skills, instead of being wasted by the pressures of competition, would be protected and developed by GKN resources.

CHAPTER 6

Conclusions

The facts

118. Our reference required us in the first place to report whether arrangements in progress or contemplation for a merger of Guest, Keen and Nettlefolds Ltd. (GKN) and Birfield Ltd. (Birfield), if carried out, would result in section 6(1)(a) and (b) of the 1965 Act being satisfied.

119. The Board of Trade did not exercise their power under section 6(11) of the 1965 Act to stay the proposed merger, the arrangements for which have been completed during the period of our investigation with the result that the two enterprises referred to in our reference have ceased to be distinct enterprises. Section 6(1)(a) of the 1965 Act is, therefore, satisfied.

120. Section 6(1)(b) of the Act is satisfied if either (i) certain conditions are found to prevail, or to prevail to a greater extent, as a result of the merger, or (ii) the value of the assets taken over exceeds £5 million. At 31st July 1965 the assets of the Birfield group at balance sheet valuation amounted to £34.9 million gross, or £18.8 million net of current liabilities and medium-term bank loans.* Section 6(1)(b) is therefore satisfied under head (ii), regardless of any finding under head (i).

121. Our terms of reference specifically require us, however, to report under head (i) whether, as a result of the merger, the conditions of the Act will prevail or prevail to a greater extent as respects the supply in the United Kingdom of

- (a) component parts for transmission systems of mechanically propelled land vehicles, in particular propeller shafts ; and
- (b) drop forgings.

122. We take the transmission components as defined in (a) above to include at least the following components of the transmission systems of private cars, commercial and public transport road vehicles and of tractors and other tracked vehicles :

- (1) clutches ;
- (2) gear boxes ;
- (3) propeller shafts and constant velocity joints ;
- (4) axles ;
- (5) alternative or supplementary components such as automatic transmissions and overdrives.

* See paragraph 42 for detail and method of valuation.

The merged company* is responsible for virtually all production and supply in the United Kingdom of category (3) but for only a minority of the other components. In the time available it was not practicable, nor did it seem to us necessary, to ascertain precise figures from all suppliers of these various components, but as we have shown in paragraphs 11 and 14 total production of these components in the United Kingdom in 1963 has been valued at at least £73 million while production by GKN and Birfield in that year amounted to not more than £20.6 million. Only a small proportion of these various components is exported as such (as distinct from those that, having been supplied in the first place in the home market, are subsequently incorporated in vehicles which are exported) and we have no reason to think that the proportion of the home market attributable to GKN and Birfield would be substantially different from their proportion of total production. We bear in mind also that 'transmission systems of mechanically propelled land vehicles' may be taken to include the transmission systems of various other 'vehicles', such as railway locomotives, and motor cycles and mopeds, and that neither GKN nor Birfield, we understand, plays any substantial part in the supply of components of such systems. In the light of all these facts our conclusion must be that, although the merged company will clearly play a predominant part in the production and supply in this country of propeller shafts, which are specifically named in the reference, and also of constant velocity joints, there is no evidence to suggest that as a result of the merger the 'conditions' will prevail or prevail to a greater extent as respects the supply in the United Kingdom of the components described in paragraph 1(ii)(a) of the reference considered in aggregate.

123. According to figures obtained from the National Association of Drop Forgers and Stampers (see paragraph 31) total production of drop forgings in the United Kingdom in 1965 amounted to 662,000 tons, of which GKN was responsible for 259,000 tons (39 per cent) and Birfield for 33,000 tons (5 per cent). We have not ascertained what proportion of the total production was supplied in the home market; but since GKN's and Birfield's sales to third parties in the home market amounted to 217,000 tons (which is about one-third of the total production figure) we are confident that their joint proportion of total supplies in the home market was more than one-third and probably in the neighbourhood of 40 per cent. It is also clear, of course, that the merged company must have a rather larger share of this market than that formerly enjoyed by GKN. Our conclusion must be, therefore, that as a result of the merger the 'conditions' will prevail to a greater extent as respects the supply in the United Kingdom of drop forgings.

The public interest

124. In spite of the conclusion reached in paragraph 122 we have found that among the principal considerations we have had to take into account in assessing the effects of this merger upon the public interest are, first, the fact that the merged company will be virtually the sole manufacturer in this country of propeller shafts and of constant velocity joints and, secondly, the extent of the merged company's present and future interests in the production of other motor components.

* We use this term for convenience to describe GKN with its subsidiaries after the acquisition of Birfield and its subsidiaries.

125. GKN appears to feel that there is some risk that our judgment may be distorted by excessive concentration on these aspects. It says that propeller shafts and constant velocity joints are a very minor part of its whole interest and that it would not have made an offer for Birfield's share capital for the sake of gaining control of the Hardy Spicer subsidiary which makes those products. It acknowledges that one of the purposes of the merger is to bring about a measure of concentration in the field of motor component manufacture with a view to providing a stronger base for serving, and increasing its business with, the motor industry not only in this country but also abroad. It goes on to say, however, that one of the main attractions of Birfield for GKN was the complementary nature of the two companies' interests and resources both within and outside the field of motor components. Having in mind the prospective loss of its steel-making interests GKN wanted to invest in a company which had a foothold in those overseas countries—particularly the European Common Market countries—where GKN's own penetration had so far been weak ; it must be a company, moreover, whose activities would be within the scope of GKN's experience, which would be capable of using materials and components made by GKN, and which had interests capable of development and expansion if GKN's greater technological and financial resources were applied to them. Birfield, in GKN's view, was such a company, and the considerations which led it to take this view have, it is said, much wider implications for the public interest than those arising from the incidental effects in such fields as that of transmission components.

126. We are concerned with the likely effects of the merger and not with the motives for it except insofar as they may point towards likely effects. Moreover we have to decide not whether the merger is in GKN's interest or even whether it is positively in the public interest but only whether it may be expected to operate against the public interest. For this purpose we must first consider those fields in which the merged company is likely to enjoy a virtual monopoly, secondly its overall position as a supplier to the motor industry and finally the total effect of the merger. Thus we do not disregard the wider implications but attach rather more importance to particular implications than GKN may have done when it proposed the merger.

Propeller shafts and constant velocity joints

127. Until about 1960 Birfield was to all intents the only manufacturer of propeller shafts in this country and therefore the only source of this essential component of all motor vehicles made here up to that time. Thereafter Birfield experienced increasing competition from GKN, which began to make propeller shafts with active encouragement from certain motor manufacturers. From roughly the same date, however, with the adoption by BMC of the front-wheel drive for certain models, the propeller shaft ceased to be an essential requirement for all motor vehicles and Birfield began to make and sell to BMC the constant velocity joints which, effectively, replaced propeller shafts in those models. Although GKN has done some development work on constant velocity joints it has not so far made them on a commercial scale, and Birfield has hitherto been the only source in this country for this component. Thus over the past six years Birfield has lost to GKN a substantial part of its former monopoly market in

propeller shafts (see paragraphs 16 and 17) but has developed a new monopoly in constant velocity joints. The demand for these two components is inter-dependent in the sense that the motor manufacturers' total requirements of propeller shafts are, of course, smaller than they would otherwise have been to the extent that they have introduced models with front-wheel drive and therefore requiring constant velocity joints. An effect of the merger therefore is to recreate the monopoly situation which existed until 1960, with the differences that the control of the monopolist production unit is now in different and in many respects stronger hands and that the range of products involved is more diverse than it then was.

128. It seems to us that the public interest considerations arising from this situation fall under three main heads covering its effects upon (1) costs and prices, (2) security of supply for the motor industry and (3) quality, improvement and innovation. And whether or not we agree with them we must take into account the views of the motor manufacturers themselves on these three aspects of the merger.

129. So far as prices and costs are concerned GKN argues first that the merger provides an opportunity for economies of scale, the extent to which they can be realised depending upon the attitude of the customers; and secondly that any economies achieved must be passed on to the customers, whose power is such that a component manufacturer, even if a monopolist, cannot hope to say in business unless he keeps his profits at moderate levels.

130. We do not think that the prospect of saving costs in the production and supply of propeller shafts played any great part in bringing about this merger. We accept that there may be scope for some saving by concentrating the manufacture of sub-components in specialised plant or production units; though the extent to which such savings can be realised apparently depends in the first place on persuading the customers that specialisation will not make the supply line more vulnerable (see paragraph 107). However this may be, it is arguable, having regard to the low level of profit earned on propeller shafts by both producing companies in recent years, that competition between them has kept prices down; but even in this connection it has to be remembered that Birfield's first reaction to the entry of GKN into this market was to seek to raise its prices (see paragraph 112), and it is by no means certain that existing prices are any lower than they would have been had there been no competition. GKN told us that it would hope that the merged company would earn a higher rate of profit on capital in its propeller shaft business than GKN had earned in the past, but in the light of Birfield's past results it apparently expects to be able to do this without raising prices.*

131. While the points mentioned in the previous paragraph do not provide any clear indication of the likely effects of the merger upon costs and prices we would agree with GKN's argument to this extent, that if the company seeks to improve the margin on the sale of propeller shafts for initial equipment it must do so by reducing costs rather than raising prices. We are satisfied that the bargaining power of the buyers in this case is sufficient to ensure that the merged company will always be under the strongest pressure

* We assume that the expectation is on the basis of a reasonably stable turnover. We have not asked GKN about the presumably temporary effects of the present recession in the motor industry on costs and profits.

to keep its costs and its profit margins as low as possible. We do not necessarily accept all that has been said by GKN in this connection about the effects of potential competition. We do not think that any large motor manufacturer would contemplate relying upon imported propeller shafts. Motor manufacturers are, of course, technically competent to make their own propeller shafts or they might (as they did in 1959) encourage some other engineering concern to undertake production of them in competition with the existing monopoly, but we do not think it likely that they would adopt either of these courses unless convinced that the prices they were being charged were very much higher than they ought to be or that the monopolist was seriously at fault in some other respect. We accept, nevertheless, that this ultimate ability of manufacturers to enter the market reinforces the bargaining power of the buyers to which we have referred above.

132. There is no reason why the change of ownership should have any direct effect upon the costs of Hardy Spicer's constant velocity joints. The merger removes the possibility of GKN's development work would have led to the appearance of a second supplier in this field. This, of course, raises the same kind of consideration as we have discussed above in relation to propeller shafts, though more hypothetically since there has been no experience of competition in this field.

133. In general it appears that, so far as the supply of propeller shafts and constant velocity joints to the vehicle manufacturers for initial equipment is concerned, competition may have a slightly depressing effect upon the profit element in the price while a monopoly situation may have a slightly reducing effect upon the cost element. The power of the purchasers, however, leaves little room for variation in costs or profits in either case. This also appears to be the view generally taken by those motor manufacturers from whom we have had evidence. We note that they all think Birfield's prices for propeller shafts, when it had the field to itself before 1960, were reasonable and that, particularly in view of GKN's co-operative attitude in matters of price negotiation and access to plant and drawings, they are not worried by the possibility that the merged company might abuse its position in this respect. For these reasons we see no likely detriment to the public interest arising from this merger as regards the costs of propeller shafts and constant velocity joints, subject only to the question discussed in the following paragraphs.

134. In so far as the power of the motor manufacturers is exercised to keep down the prices they have to pay for initial equipment for the vehicles they make, we take the effects to be to the national advantage, particularly inasmuch as the British motor industry is an important exporter which has to compete in price with overseas manufacturers. But many motor components have to be replaced during the life of the vehicle and the ultimate customer for the replacement part is not the motor manufacturer but the owner of the vehicle. The price paid by this ultimate customer is generally much higher than the price paid by the motor manufacturer for his initial equipment. Part at least of this difference is economically justified in the sense that the costs of distribution are necessarily much higher. But the interests of the motor manufacturers do not have the same depressing effect upon profits in this field as in the field of initial equipment. If the component manufacturer is left free to distribute replacement parts through his own sales organisation he

can normally command a substantially higher price from the first buyer (possibly a factor) than he is getting from the motor manufacturer. But the motor manufacturers are tending to play an increasingly active part themselves in the distribution of replacement parts and to demand a share of the profit and, though this may have some restraining effect on the component manufacturer's selling price, the general tendency may well be to create a price structure for replacement parts which allows generous margins of profit to both component manufacturer and motor manufacturer at the expense of the ultimate customer.

135. We recognise that the incidence of replacement varies very widely; indeed from component to component in the life of an average vehicle and that it appears to be quite low in the case of propeller shafts and constant velocity joints. We do not therefore wish to exaggerate this aspect of the matter. GKN tends to dismiss it as of no importance at all in the light of its own very small replacement trade in the past (see paragraphs 25 and 110). In recent years, however, Birfield's replacement trade has not been entirely insignificant and, from such calculations as we have been able to make, it appears that it may have been providing half or more of Birfield's total net profits on its sales of propeller shafts and constant velocity joints (see paragraphs 25 and 60). GKN says that although it will seek to maximise its replacement trade it has a strong preference for selling replacements to the motor manufacturers for distribution through their selling organisations. It fully accepts, that is to say, the contention of the motor manufacturers that replacement parts distributed otherwise than through the manufacturer of the vehicle and not carrying the protection of his name are properly called 'spurious' and, in the case of vital parts such as transmission equipment, are a serious risk to road safety. GKN believes that both the component manufacturer and the vehicle manufacturer can justifiably look for a rather higher margin of profit on replacements because the customer has in any case received the benefit of the low cost and low profit margin on the initial equipment; but it contends that there is no danger of the customer being unduly exploited on replacements since it is in the interests of both component manufacturer and motor manufacturer to keep the ultimate price at such a level as will deter manufacturers of 'spurious' components from entering the market.

136. Ostensibly the elimination of competition in the manufacture and supply of propeller shafts removes one of the safeguards against exploitation of the replacement customer. We note, however, that it is Birfield that has been earning relatively high profits on replacement trade; and, having regard both to GKN's stated views on how this trade should be conducted and to the low incidence of replacements (whether of propeller shafts or constant velocity joints or parts thereof) we doubt whether the merger is likely to have any substantial effect one way or the other on the prices of replacements. We do not accept that 'spurious' is necessarily a proper description of replacement components supplied otherwise than through the selling organisation of the motor manufacturer concerned or even of components made by a manufacturer other than the one who made the initial equipment for the vehicle concerned. But we recognise that the fear that an alternative supplier will come into the replacement market must put some restraint upon prices; and although it may be said that this restraint would only become really effective when prices reached a quite unreasonable level we think that this was, in

practice, equally true in the situation that existed before the merger. On the whole, therefore, although this is a matter which has caused us some concern, we do not think it can fairly be said that the likely effect of the merger upon replacement prices for propeller shafts and constant velocity joints is a factor which may be expected to operate against the public interest.

137. Thus our general conclusion under head (1) of paragraph 128 is that the merger may not be expected to have an adverse effect upon the public interest so far as the costs and prices of propeller shafts and constant velocity joints are concerned.

138. For the motor manufacturer it is at least as important that he should have entirely reliable sources of supply of components as that he should be able to buy the components at low prices, and we accept that the one consideration is as much to the national advantage as the other. In the long term this is an expanding industry and every component manufacturer must plan ahead with a view to ensuring that his capacity will always be sufficient to meet demand—an exercise which is necessarily speculative to a degree since the rate of expansion even in the long term is not exactly foreseeable while in the shorter term the motor industry is peculiarly liable to fluctuations in output. GKN argues that, given all these uncertain factors in any event, two component manufacturers who each have additionally to speculate upon what their respective shares of the total market for their particular component will be are more likely to arrive at a wrong conclusion than a single monopoly supplier who can at least be confident that the whole demand will fall upon him.

139. In this respect GKN's arguments may not appear entirely consistent with past history. According to a number of motor manufacturers the main reason why they were prepared to encourage GKN to enter this market about 1960 was the failure of the then monopolist, Birfield, to provide itself with sufficient capacity to meet their demands in full at a period of peak production. Subsequently, while Birfield and GKN were in competition, there has been no question of insufficient capacity but rather the reverse inasmuch as Birfield's propeller shaft plant has been operating at a level significantly below capacity. Birfield denies that it failed at any time to meet the forecast needs of its customers ; any ' failure ' that occurred was in meeting demands in excess of their inaccurate forecasts. GKN suggests, in effect, that Birfield's experience was exceptional, due in part perhaps to its financial and other resources being insufficient to meet the demands made upon a component manufacturer in the conditions of today. GKN claims that its own record for meeting all demands made upon it by the motor industry is exceptionally good and that, as a monopolist producer, it would never allow itself to get into the same situation as Birfield.

140. We see some force in these arguments. We have been told that other monopolist component suppliers have not, in general, failed to meet exceptional demands upon them and we think that if Birfield ' failed ' in this respect it was an exceptional case ; it may be that Birfield was unfortunate in that it was presumably expecting the partial changeover to constant velocity joints to relieve the pressure for expansion of its propeller shaft plant but had to meet an unexpected peak demand in the meantime. We

note that those motor manufacturers who complain of their experience with Birfield do not expect it to be repeated with GKN. We think that the motor manufacturers are mainly concerned to have suppliers to whom they can delegate responsibility in the sense that they are suppliers who understand their requirements and the hazards of forecasting, who are willing to lay themselves out to meet these needs and have the technical and financial resources to make for themselves prosperous and stable businesses out of this activity. For a number of reasons GKN appears to them to answer to this description better than Birfield and they believe that the merged company will follow the GKN pattern.

141. There remains in our minds a small element of doubt as to the effect on the forward planning of a company which is conscious that it has no competitor. Providing excessive capacity can of course have a serious effect upon profits and the monopolist is always open to the temptation to keep his capacity rather below the level of potential demand to ensure that it will be fully employed. GKN says that whatever may be the case elsewhere this sort of attitude is impossible in the motor industry because of the power and vigilance of the customers. It also points out that any failure on its part to meet demand for one type of component would redound to its own disadvantage insofar as it would delay vehicle production and therefore cause a pile-up of stocks of other components which GKN produces. Although we think that a monopoly supplier is likely to be rather more cautious in his planning than one who has a competitor we accept these arguments to the extent that we believe that a multiple component supplier to the motor industry such as GKN is under considerable pressure and inducement to put himself in a position to meet demand at all times.

142. In relation to security of supply there is finally the question whether in a monopoly situation supply is more likely to be interrupted by causes other than a failure to provide the necessary capacity, e.g. the shutting down of a plant due to industrial dispute, fire or other accident. We do not think that common ownership of separate plants in itself increases these risks but they may be increased if this is followed by measures of specialisation to eliminate duplication of function. GKN says that it is well aware of the sensitivity of its customers to such risks and that it will not introduce specialisation of function without consulting them fully, but it hopes it may be able to persuade them not only of the advantages in terms of cost but also that specialisation can be combined with measures to hold larger stocks at a number of assembly points which would make the supply line more rather than less secure (see paragraph 108). With these points in mind we do not think that the merger is likely to enhance these particular risks.

143. Our conclusion is therefore that while the merger seems to us unlikely to enhance the motor manufacturers' security of supply there is no reason to think that it creates any significant risk in that respect.

144. There remains the question whether the merger is likely to be disadvantageous to the public interest in its effect upon quality and the development of improvements and innovations in the transmission joint field. On the one hand, it is said that Birfield's particular skills, know-how and research potential if added to GKN's and developed with the greater

resources that GKN possesses will produce more beneficial and quicker results than either company would arrive at independently. On the other hand there is the view that in the field of research and development independent approaches to the same problem by competing organisations are likely to be more fruitful of results than a single organisation setting its own pace; while, for instance, GKN's development work on constant velocity joints may continue under the merged company there is no longer the same incentive to make a product which can compete commercially with the Hardy Spicer joint. These are largely theoretical arguments and, in general, individual judgments are likely to differ as to where the balance of advantage lies. We return to this matter when considering effects of the merger as a whole; but in the narrow field of transmission joints which is under discussion here we do not think, on balance, that the merger is likely to lead to any slowing down of development or deterioration of quality.

145. Having regard to our interim conclusion in paragraphs 137, 143 and 144 our general conclusion so far as propeller shafts and constant velocity joints are concerned is that the monopoly in this field consequent upon the merger may not be expected to operate against the public interest.

Motor components in general

146. GKN has told us that the merged company's direct business with the British motor industry is likely to be of the order of £120 million annually. We have not verified this estimate but it appears that sales to United Kingdom motor manufacturers of the products which are specifically mentioned in our reference—transmission components and drop forgings—may be expected to amount to more than £50 million. Other motor components supplied include cylinder heads and blocks, panel pressings, bumper bars, hub caps, crankshafts, camshafts, chassis frames, wheels and many smaller parts.

147. Propeller shafts apart, the merger does not bring about any very significant additional concentration of productive capacity under single ownership in relation to particular motor components. GKN's already dominant position as a supplier of drop forgings is slightly reinforced, while the merged company will probably be in a rather stronger position than either of its constituents as a minority supplier of such components as axles, crankshafts, and parts thereof. We are more concerned, however, about the possibility that the concentration under single control of productive capacity for a number of different components may afford the merged company opportunities of bringing stronger pressure to bear upon its customers than either GKN or Birfield individually could have exercised in the past.

148. Ostensibly at least a supplier who is the sole available source of a particular component is in a position to use his customers' dependence upon him for that component as a lever to obtain advantages in his dealings with the same customers in relation to other components which he is capable of supplying though he is not the sole available source for them. The advantages to be sought might be rather higher prices for certain components, or a rather larger share of the customers' orders for them, than he would otherwise get, and there are various ways

in which a bargain of this kind might be struck without the conditions becoming explicit. GKN says, in effect, that the motor industry would not tolerate anything of the kind on the part of a component manufacturer and that, for its own part, it has never contemplated and would not contemplate doing business by such methods. As to the first part of this argument we think that the largest customers are well able to look after themselves in this respect though the smaller motor manufacturers might be more open to persuasion. As to the second part, some concern has been expressed to us, particularly by some of the smaller drop forgers, about the existing practice on the part of GKN of concluding 'package deals' with some customers covering the whole of their drop forging requirements for particular models, and about the possibility that the merged company might be able to offer additional inducements for such deals by offering other components in the package. The smaller drop forgers say they cannot compete on this basis because they do not make all types of drop forgings, much less other motor components.

149. GKN agrees that it has made some package deals with motor manufacturers covering their whole drop forging requirements for particular models, or even for all models. It says that the initiative came from the customers concerned, that there are at any rate a few other drop forging companies which would be capable of making similar deals, and that it has never extended such deals, or contemplated extending them, beyond the field of drop forgings.

150. We see no intrinsic objection to a manufacturer and a customer making a comprehensive bargain covering products in which they are mutually interested. Such deals may well have advantages for both parties and may indeed be in the public interest in so far as they lead to lower cost and improved efficiency. In the case of drop forgings there is, no doubt, a strong case for having co-ordinated production and delivery of the many different specifications required for the motor manufacturer's assembly line; and since the motor manufacturers now take some 75 per cent of the total output of drop forgings it seems to us natural, and indeed inevitable, that the largest drop forgers should put themselves in a position to offer them a comprehensive service. Although it is almost impossible to make exact price comparisons, these deals probably involve some advantage in price which may reflect a saving in cost. We do not think that small drop forgers who are unable to lay themselves out to meet the motor industry's needs in this way can justifiably complain if others are able to do so. The motor industry calls increasingly for large-scale production of components; as far as we are aware the services of the smaller specialised drop forgers are still in demand for many purposes but it may well be that they cannot hope to obtain more than a small share of the motor industry's custom.

151. We think it unlikely that any question of package deals on a wider scale would arise unless and until the merged company were in a position to offer complete sets of closely related components. GKN has told us that it expects to extend its range of automotive products, particularly by including 'components possessing unique design and technological content.' GKN in the past, and to a lesser degree Birfield, have had important shares of the British motor industry's custom for components. The share of the merged company will clearly be even more important but in the foreseeable future

it seems to us unlikely that it will be in a position to offer, for instance, a complete set of components for a transmission system. The motor manufacturers themselves have shown no concern about this aspect of the merger. Their attitude on the whole is that since GKN has been found to be a reliable supplier they see no objection, in spite of a theoretical preference for competitive bidding, to that company being the sole source of one component, and still less do they object to GKN extending its interests in components for which there are alternative sources.

152. Our conclusion is that while the merger may seem to enhance to some extent GKN's ability to bring pressure to bear upon its motor manufacturing customers the merged company is, in practice, unlikely to wish or to be able to abuse its position in any serious way. We do not think, therefore, that in the field of motor components considered as a whole the merger may be expected to operate against the public interest.

The merger considered as a whole

153. Having found that in the particular aspects we have examined in some detail the merger may not be expected to operate against the public interest we need only consider whether, these aspects apart, there is any conspicuous disadvantage which would affect our judgment on the effects of the merger as a whole.

154. We have already, in paragraph 125, referred to some of GKN's wider reasons for undertaking this merger, and the company in this connection has stressed its desire to increase its export and other overseas trade and, above all, to use Birfield's established footholds in Europe for selling on a much larger scale the products of the merged company. We cannot of course say whether GKN will succeed in these aims but we have little doubt that its success would be to the national advantage. There is at least no obvious reason why the merged company should be any less successful overseas than its constituents have been.

155. As we have said in paragraph 144 there are theoretical arguments both for and against the merger in relation to its possible effects upon research and development. Although Birfield appears in some cases to have relied upon foreign inventions or improvements, it has not been unsuccessful in developing such products as constant velocity joints and overdrives. It is GKN's belief, however, that the merged company will be able to exploit more effectively than Birfield could have done not only such achievements as these but also other developments (e.g. in powdered metals, in cold forging) where Birfield's technical progress has not so far been matched by great commercial success. In this particular case we are inclined to think that there may be some substance in this argument because we are not convinced that Birfield had an assured future on its own.

156. We think it relevant to consider what, in practice, would have been the possible alternatives to this merger. At the time when GKN made its bid there were said to be rumours to the effect that either a British motor manufacturer or an American component manufacturer would bid for Birfield; and there is no doubt that the absence of opposition by motor manufacturers to the present merger is in part due in some cases to the fact that some of them would rather see Birfield acquired by GKN than by one of other possible bidders. We are not satisfied that any such alternative

bids were imminent. Nevertheless we think there are a number of reasons why Birfield should have been regarded as the probable object of a merger bid and why, in the long run, the company would have found it difficult to maintain its independence. Without going into all of them it may be sufficient to say, first, that it was a company of high technological competence in a number of specialised fields but appeared to lack some of the resources needed to exploit its advantages, and, secondly, that as a motor component producer it did not quite keep pace, in weight and size, with developments in this expanding industry. Birfield, indeed, supports the merger very largely for these reasons. GKN believes that there is a future for independent suppliers to the motor industry who are on a large enough scale and who are prepared to study their customers' needs and gain their confidence, but that they must possess a certain basic strength and toughness if they are to gain an adequate profit from the activity. We see no reason to differ fundamentally from this opinion and with these considerations in mind we doubt whether Birfield could for long have survived on its own. If the future for motor component manufacture lies with large units we do not think it can be said that there is any other potential partnership for Birfield which would have obvious advantages over the merger with GKN.

157. Our final conclusion is, therefore, that the merger between GKN and Birfield does not operate and may not be expected to operate against the public interest.

ASHTON ROSKILL (*Chairman*)

T. BARNA

A. R. BARROWCLOUGH

HENRY CHISHOLM

ALIX MEYNELL

O. B. MILLER

E. L. RICHARDS

J. M. A. SMITH

Miss M. DENNEHY (*Secretary*)

15th December 1966