

### **Competition between Courtaulds' textile subsidiaries and the company's outside customers**

127. Individual customers have expressed themselves as satisfied that in times of shortage Courtaulds would not give preferential treatment to its own textile subsidiaries. A number of others have, however, alleged (or said that they feared) discrimination in supplies, price or quality, or have referred to the difficulty of competing with Courtaulds' subsidiaries.

128. These matters have already to some extent been considered in describing relations between Courtaulds and its textile subsidiaries (paragraphs 86 to 93). The company has submitted that competition between producers and users of materials exists in many industries and is apparently accepted. In the textile industry all the major vertically integrated groups compete at various stages with customers who have purchased products at the preceding stage and in the man-made fibres industry this is true of other producers besides Courtaulds. In industry generally there are at present two major trends: one towards larger manufacturing groups designed to realise full economies of scale resulting from new technology and automation and producing, particularly in the chemical industry, larger and larger units of a highly capital-intensive nature; the other towards vertical integration, which itself brings certain economies in cost (particularly by promoting better production planning at each stage and consequently more intensive utilisation of capital), besides leading to much greater flexibility and much quicker response to change in demand. In Courtaulds' view there seems to be no better case for a horizontal break at the point at which the material is being produced than there is for a similar break at any other stage.

## **CHAPTER 7**

### **The case for Courtaulds Limited**

129. Courtaulds' submissions and explanations on matters of detail affecting the public interest have where appropriate been included in earlier chapters of our report. The present chapter is therefore primarily concerned with the broader aspects of the company's case.

130. Courtaulds submits that, although as the supplier of over 90 per cent (by weight) of all cellulosic fibres in the United Kingdom it is by statutory definition a monopolist, it is not a monopolist in any sense in which the term is commonly understood. The company explains that the manufacture of cellulosic fibres was in origin and remains in essence part of the total business of supplying raw materials to the textile industry; the bulk of such raw materials has always consisted of natural fibres, nearly all of which are produced overseas. The company says that fibres of all types for which it is responsible account for some 27 per cent of total United Kingdom fibre consumption and its cellulosic fibres for about a quarter (by weight) of that total. Cellulosic fibres are 'replacement, fibres. From the user's point of view Courtaulds' cellulosic fibres represent only one of a number of alternatives, including natural fibres, other types of man-made fibres and in certain trades materials other than fibres, and Courtaulds itself is only one of a number of potential suppliers.

131. The company further explains that the customer's choice as between these various alternatives is dictated by value for money; cellulosic fibres face, and always have faced, competition. Furthermore, even though Courtaulds maintains the value for money of its products it does not, the company submits, enjoy security but must always compete not only by reducing prices in real terms, but also by readiness to meet changes in demand resulting from changes in fashion; new fibres and blends of fibres are constantly being developed which may very quickly wipe out the demand for older types. As a result of competitive pressure Courtaulds has, it argues, little scope for setting the price of its cellulosic fibres, which may at best be expected to yield only what the company describes as its present very modest and unhappily decreasing returns, and those only if a high level of efficiency is maintained. If the company ignored competition in setting its prices, its business would sooner or later suffer; it cannot, it submits, fix arbitrary prices for its fibres. In fact, Courtaulds says, it has achieved a greater penetration in the United Kingdom market than that achieved by cellulosic fibres in any other country; in other words, the company has competed more successfully with synthetic fibres and with cotton than have cellulosic fibre producers in other countries.

132. Courtaulds cannot, it says, prevent other producers from entering the field. It notes that three large international manufacturers of man-made fibres have already acquired or established manufacturing subsidiaries in the United Kingdom and another is expected to do so shortly. The company also notes, however, that while American producers are invading the European fibre industry, Courtaulds itself is apparently virtually the only company willing to risk investment in the United Kingdom cellulosic fibres industry apart from Chemstrand Ltd's acquisition of Lansil. This fact is due, Courtaulds submits, not to any action on its part calculated to exclude competitors, but to Courtaulds' long experience, its marketing skills and the scale of its operations, which make it the concern best fitted to produce cellulosic fibres in this country.

133. Competition is experienced also from imports both of fibres and of products incorporating fibres—competition which, Courtaulds says, in the case of fibres is in some cases subsidised by foreign governments. The company also points out that imports from EFTA countries can now enter the United Kingdom duty free.

134. Courtaulds attributes its success and its present dominant position as a supplier of fibres primarily to foresight and good management. The company explains that over the years it has made a number of crucial decisions, later justified, including the acquisition in 1904 of United Kingdom rights under the viscose master patents; the establishment in 1910 of an American subsidiary; the acquisition in the 1930s of cotton- and wool-spinning know-how and the building of its Greenfield factory for viscose staple production; the acquisition in 1945 of rights under the American Industrial Rayon Corporation's continuous spinning process, its subsequent modification and its application to tyre yarn production; the development in 1962 of a modified viscose staple specially designed for the carpet trade; the establishment in 1951 of a subsidiary to produce low-cost wood pulp.

135. The introduction of tariffs in 1925 had the effect of protecting and strengthening the United Kingdom cellulosic fibres industry and led both to a reduction of imports and to an increase in the number of indigenous manufac-

turers. Courtaulds was not responsible for this introduction. It says that the development of the cellulosic fibres industry in the world as a whole would not have been possible without adequate tariff protection against imports into producer countries of low-priced surplus fibres and submits that, as in other countries, the United Kingdom has had such protection. Courtaulds concedes that it is 'in a slightly special position as far as tariffs are concerned'; although United Kingdom tariffs are not as high as those in some countries. Any success achieved by the company has, it says, been achieved in the presence of, but not because of, tariffs and the latter do not protect Courtaulds at the expense of the British consumer; the company claims that its domestic prices generally compare favourably with those in other producing countries. Courtaulds says that its arrangements with other EFTA producers are not a device to circumvent duty-free imports and low prices. The company points out that it has not entered into arrangements with all other EFTA producers and argues that by virtue of their economic weakness its EFTA 'partners' could not in any case have offered long-term price competition; it submits that the dumped price competition of the dying is not in the consumer's interests since small profits lead to inferior quality, which is in turn bad for the reputation of the product and ultimately for Courtaulds' own reputation. The company's arrangements with EFTA producers have on the other hand, Courtaulds claims, produced certain positive benefits and savings arising from technical and commercial collaboration.

136. Courtaulds points out that tariffs are constantly under review by the Board of Trade. The company regards them as necessary at the present time and in existing circumstances to provide a breathing space until its future production plans mature in the 1970s. At the same time Courtaulds says that it is prepared, indeed anxious, to compete with foreign producers on equal terms and would be delighted if the Board of Trade cut import tariffs, provided tariffs in other producing countries were also cut and other 'more subtle barriers to imports' into those countries removed. If the United Kingdom entered the European Economic Community, Courtaulds is confident that it would dominate the sections of the market in which it was engaged. At the same time, in Courtaulds' opinion, if United Kingdom tariffs were cut, the market would probably be flooded or at least seriously affected as the result of excess manufacturing capacity in foreign countries, and this would in turn create similar problems of over-capacity in the United Kingdom. In the company's view, United Kingdom anti-dumping legislation is not 'really very satisfactory or very effective' and there is a limit to what it can achieve.

137. Courtaulds has survived where other United Kingdom cellulosic fibre producers have failed not, the company submits, because historically it has enjoyed any unique advantage, but by virtue of greater resources, greater inventiveness and greater drive. The company explains that it has had the funds and the know-how to expand its production to meet increased demand since the war, it can take advantage of reasonably long production runs to keep down its costs and it has been prominent amongst the great world fibre producers in introducing new fibres and improving existing ones. It claims that its fibres compare favourably in range and quality with those of any producer in the world. It says that by the 1960s cellulosic fibres had tended to be manufactured by very large organisations, often with a domestic monopoly; while Courtaulds is itself large, it is by no means the largest of these international groups. It

maintains that in the long run and in a capital-intensive industry such as the man-made fibres industry only the large groups are likely to survive, since only they can produce the economies of large-scale production essential to successful competition.

138. Courtaulds submits that it is the best qualified to supply the United Kingdom market because it has the necessary size and expertise. The company maintains that the entry into the market at this stage of other producers would be contrary to the public interest. Competition may, it says, often provide a spur, but competition in the context of a saturated market is another word for excess manufacturing capacity; in the light of experience in other countries and especially at the present time in Japan, excess capacity cannot be other than wasteful\*; Courtaulds does not fear competition on equal terms, but it dislikes excess capacity.

139. The home market for a United Kingdom fibre producer is, Courtaulds says, smaller in terms of population than the home market of many of the company's world competitors. The company explains that a United Kingdom producer must make a wide range of basic types of fibre (cellulosics, polyamides, polyesters, acrylics) and of varieties within each type; fibres must increasingly be modified to develop special properties for particular end-uses, thereby becoming less versatile individually. The increasing number of end-uses therefore has the effect of fragmenting production, while competition requires that each variety of fibre be produced at the lowest cost, a result which can be achieved only by large-scale production. Heavy capital investment and extensive know-how are required to produce merely one type of fibre at a competitive price and quality but, in view of the constantly changing pattern of the market and the range of production of the major foreign-based producers, to produce only a few types would be, Courtaulds maintains, an intolerable risk. The failure to spread their risks over a wide range was, the company says, one of the basic weaknesses of the smaller United Kingdom producers. The United Kingdom producer must spread his risks widely and the United Kingdom market is not large enough to support a number of producers, each producing an adequate range in economic quantities.

140. Courtaulds itself has grown greatly over the past 20 years; in the period between the 1920s and 1960s its sales increased more than 20 times in volume. The group as a whole employs over 100,000 people and assets (as opposed to equity capital) of over £300m. The company believes that it possesses the size and expertise necessary to achieve the economies in production which can be derived only from large-scale operation, economies which, it submits, are particularly important in the cellulosic fibres industry. For example, a viscose staple plant with an annual production capacity of 100 million lbs would cost £10m, equivalent when operated at maximum capacity to about 2s. per annual

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\* Figures of world production and world production capacity of cellulosic fibres in 1953 and the period 1964 to 1966 are given in Appendix 3.

In March 1966 Courtaulds told us that 'by the early 1950's surplus capacity [in viscose staple] was evident in Europe and in the world as a whole, and in particular Austria and Sweden were left with capacity out of all proportion to home usage'. Later in 1966 the company said that 'this state of surplus still appeared to prevail in 1961'. With the development of the new carpet and cotton-type fibres, however, the situation changed; 'indeed by 1964/65 the prospect was of world shortage rather than world surplus'.

lb of product; in a plant of 50m lbs capacity the cost per annual lb of product would be 3s. 3d. ; and in a plant of 25m lbs the corresponding figure would be 4s. After 100m lbs the curve flattens out, so that in a plant of 200m lbs capacity the cost per annual lb of product might be 1s. 9d., although economies continue to be related to size.

141. To achieve economies of scale in the cellulosic fibres industry it is essential, Courtaulds says, to operate continuously. The objective is to run at 100 per cent capacity; it is more economical to have one plant running at full capacity than two at half capacity. Courtaulds' size enables it to rationalise production and thus achieve continuous operation of its plant, with very significant economies. It says that if there were two independent producers of viscose staple, for example, neither could achieve the operating economies resulting from size of plant and length of runs achieved by Courtaulds at its Greenfield factory and neither could make standard viscose staple at a cost which permitted it to export in significant quantities. The company says that it has been able to achieve similar results in the case of other fibres by concentrating production of a particular type in one factory.

142. Size also enables Courtaulds to finance research and to apply its fruits over a very wide field. The company claims a record of inventiveness second to none. Further, it points out that, where heavy promotional expenditure is necessary in launching a new brand or product, the scale of the company's production enables it to spread marketing costs over a large volume of sales; since such costs do not rise in proportion to sales, marketing costs per unit of sales are in effect lower.

143. Courtaulds explains that the fortunes of United Kingdom fibre producers are bound up with those of their chief customer, the traditionally horizontally organised and highly fragmented textile industry. The textile industry is inherently unstable by virtue of its own structure, of the constantly changing demands of fashion and of the constantly varying quality, condition, availability and price of its natural raw materials, and is prone to cycles of boom and slump. The United Kingdom textile market is, Courtaulds maintains, weaker than the home markets of most fibre producing countries because the United Kingdom alone of fibre and textile producing countries is opened by virtue of Commonwealth Preference to duty-free imports of cheap cotton fabrics from the Far East. The spread of man-made fibres into all sections of the United Kingdom textile industry and their ability to be fed in at various stages down the production line brought Courtaulds (and later other fibre producers) into the middle of what the company describes as 'this diverse and highly-skilled but speculative and unstable industry'. The company's commercial policy of stability of prices, quality and deliveries stems, it says, from this experience and recent moves towards larger units and increased vertical integration are all aimed at greater stability and efficiency and 'an ability to meet the purchasing power of the big retailing groups'. Because it is vertically integrated Courtaulds is in touch with fibre users over a wide field of end-uses. The company says that it has thus direct knowledge of users' requirements and the ability to appeal directly to the fibre user in promoting the company's products, rather than engaging in costly promotional appeals. It is better able to control the quality of the end product incorporating its fibres, can exercise greater flexibility in pricing (particularly

in the case of exports) and can react as expeditiously as it should to changes in technology and to variations in the demands of fashion, as well as gauging more accurately whether a given demand is what Courtaulds would regard as real or artificial. The company submits that vertical integration is not only desirable but virtually essential if the textile industry is to survive, a fact which has received official recognition\*; without it the consumer would soon no longer have the choice of buying from a United Kingdom manufacturer at all. The company says that its own textile interests in no sense constitute tied outlets which enable the company to charge higher prices to its outside customers or to restrict the range of products available to the consumer. To maintain its markets, Courtaulds has been obliged to invest in the textile industry 'on a very unprofitable rate of return'.

144. Courtaulds submits that a capital-intensive industry is natural in a sophisticated economy. The company believes that it has done much to make the cellulosic fibres industry a capital-intensive industry and to improve output and productive efficiency. Courtaulds' capital employed per employee† is equivalent, the company says, to £10,000 in the case of acetate fibre production, £10,600 in the case of viscose yarn production, £13,000 in the case of viscose staple fibre production—as compared with the United Kingdom average of about £4,500. The company says that between 1948 and 1965 output of viscose staple per factory employee increased by some 200 per cent and output of acetate at Courtaulds' Spondon factory by 318 per cent—as compared with the national average of about 60 per cent. In 1951 the company's new American factory (at Mobile, Alabama) was, it says, the most highly automated in the world and output of viscose staple fibre per employee far surpassed that in any other plant then operating. From 1963 to 1965 Mobile earned a return on historic costs basis of 19 per cent on capital employed; had it operated as efficiently as does Courtaulds' Grimsby factory, by which it has since been overtaken, Courtaulds estimates that the return would have been 27 per cent.

145. The company's capital investment is very large; it says that since 1954 it has spent £100m on buildings and plant for cellulosic fibres alone. The company's prices have remained stable and have, it submits, fallen in real terms. The company's overall profits are low and are getting lower; the level of the return earned is unattractive to the average industrialist. The company has faith in the future of cellulosic fibres; if it had not, it would cease production in the face of inadequate profit margins, as some of its foreign competitors have already done or have announced their intention of doing. Courtaulds submits that it has not made profits out of a captive market. It points out that development costs in the industry are high and that the development of a new fibre is a long process. The life cycle of a new or modified fibre or blend is a curve. At first it makes a loss; later, with mass production, an established market and economies of scale, it should show a profit. In any given range of fibres and at any given time, some will be more profitable than others and must necessarily provide the means for subsidising the development of fibres which it is hoped to promote in the next decade.

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\* *The National Plan* (Cmnd. 2764, HMSO, 30s.) chapter 14, paragraphs 23–27; *House of Commons Official Report*, 14 June 1967; Oral Answers col. 529.

† That is, headquarters, factory and research staff and directors, and factory employees.

146. Courtaulds submits that the existence of a strong cellulosic fibres industry in the United Kingdom has proved greatly in the national interest by providing a cheap home-produced raw material as a replacement for imported natural fibres, especially cotton, with which viscose alone can compete directly in price as a mass-produced commodity fibre. Great advantages attach, the company maintains, to the scale of its operations. It argues that, if the United Kingdom is to retain its place as one of the world's leading manufacturing nations and is to remedy its balance of payments deficit, the efficiency of British industry and its ability to develop and expand are essential and must not be impaired. The practical advantages for the United Kingdom of permitting its large manufacturing groups to press on with their plans for modernisation are self-evident and the improvement of productivity of both labour and capital are of paramount importance. Courtaulds submits that nothing it has done as a result of or for the purpose of preserving its position, or is likely to do in the future, has operated or is likely to operate against the public interest. It submits that, to the extent that the cellulosic fibres industry in the United Kingdom is in Courtaulds' hands, it is in good hands. It submits further that judged by the criteria set out in section 14 of the Monopolies and Restrictive Practices (Inquiry and Control) Act 1948 Courtaulds' monopoly position as a cellulosic fibre producer operates positively in the public interest.

## CHAPTER 8

### Conclusions and Recommendations

#### Conclusion on the conditions

147. In the calendar year 1966 the total quantity of unprocessed man-made cellulosic fibres supplied in the United Kingdom was 426.8m lbs (see tables 3A and 3B of Appendix 3). Of this quantity 379.7m lbs, or 89 per cent, was supplied by Courtaulds. We therefore conclude that the conditions to which the 1948 Act, as amended, applies prevail as respects the supply of unprocessed man-made cellulosic fibres.

#### The public interest

##### Development of the monopoly position

148. We are required to report whether the conditions which we have found to prevail by virtue of Courtaulds' share of the total supply of cellulosic fibres in the home market, or any of the things which are done by Courtaulds as a result of or for the purpose of preserving those conditions, operate or may be expected to operate against the public interest. Before discussing the effects of the prevalence of the conditions we think it is useful to try to understand how Courtaulds has achieved its position of dominance. We have therefore set out the history of the production and supply of cellulosic fibres in Britain in some detail in chapter 2.

149. Courtaulds has been the principal producer of cellulosic fibres in the United Kingdom ever since production started but, apart from the earliest period ending in the 1920s, it is only in recent years that it has emerged as almost the