

APPENDIX 2.1
(referred to in paragraph 2.19)

Capacity of white salt producers in the mid-1960s

The structure of the white salt industry in Great Britain in the mid-1960s, and its production capacity, were as follows:

	<i>Production capacity tonnes a year</i>
ICI	730,000*
Staveley Industries	350,000†
BP Chemicals	150,000
Cerebos Foods	130,000‡
New Cheshire Salt Works	70,000
Total	1,430,000

*Concentrated at Runcorn and Winsford with some smaller plants elsewhere.

†British Soda (Sandbach): 140,000 tonnes; Palmer Mann (Elworth): 90,000 tonnes; Vacuum Salt Co (Stafford): 70,000 tonnes of PDV and 50,000 tonnes of granular salt.

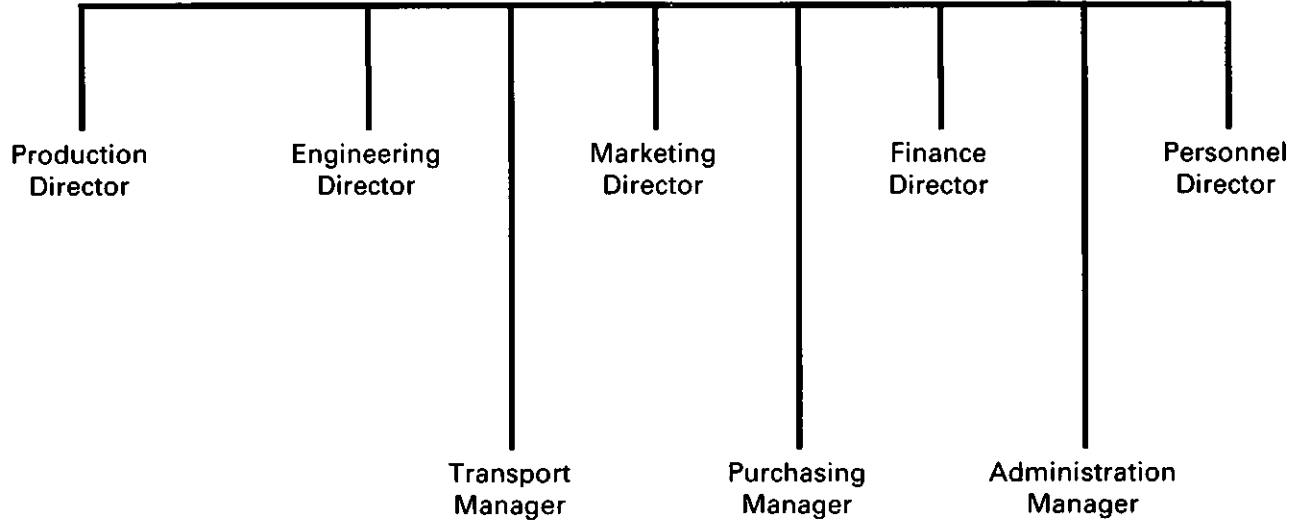
‡Middlewich: 80,000 tonnes; Greatham (North East England): 50,000 tonnes.

APPENDIX 3.1
(referred to in paragraph 3.21)

Management organisation chart

British Salt

MANAGING DIRECTOR



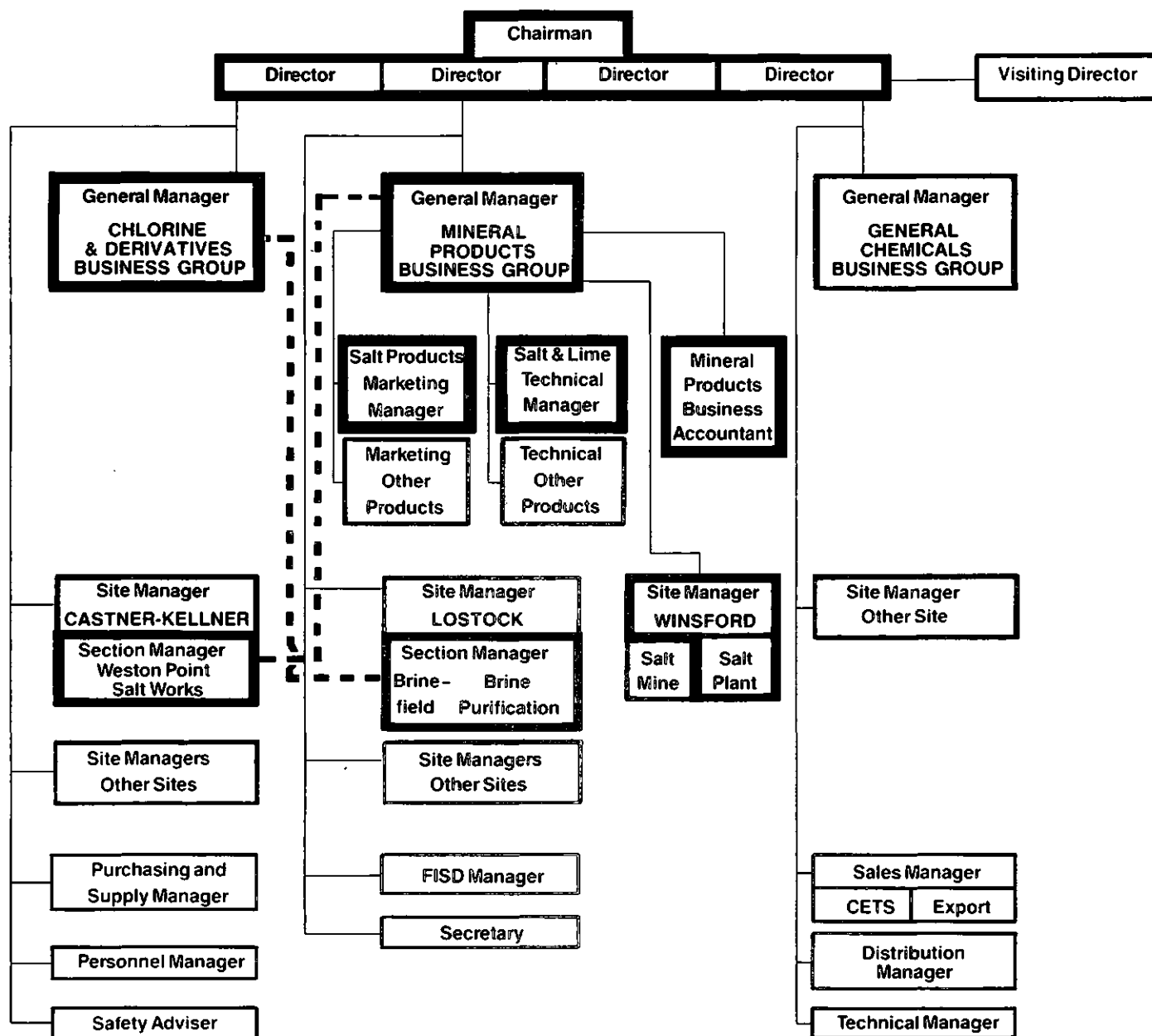
APPENDIX 3.2
(referred to in paragraph 3.36)

Expansion of ICI's white salt activities since 1945

- 1948 ICI first produced dendritic salt at its Winsford plant on a commercial scale. This grade of salt had been specially developed by ICI for the export market to Nigeria. ICI is the sole United Kingdom producer. There are two other producers of a similar product overseas.
- 1950 The first Oslo evaporator was installed at Stoke, enabling ICI to produce granular salt.
- 1958 Capacity of the Weston Point plant was increased by the addition of three Oslo evaporators as the fourth effect of what had previously been a three-effect plant.
- 1964 The Winsford plant was replaced by a new four-effect plant, with new finishing and bagging plant. The new plant had a capacity of 135,000 tonnes per annum.
- 1968 The Weston Point plant was converted to five-effect working by the addition of a new fine salt evaporator.
- 1968-71 The bodies of the three original fine salt evaporators at Weston Point were replaced with bodies in Monel clad mild steel. A new steam main, a thermo-compressor and a by-pass condenser were added to increase salt output and absorb excess steam. Modifications to the separation and drying plant were carried out.
- 1974 The boiler plant at Winsford was up-rated for the second time (the first increase was in 1969) and Winsford salt capacity was increased to 185,000 tonnes per annum.
- 1975-76 A two-fold expansion scheme was put in hand to increase capacity at Weston Point. In 1975 an Oslo evaporator, originally part of the Stoke plant closed in 1972, was installed at Weston Point alongside the three existing Oslos as part of the final effect. This increased granular salt capacity by about 25,000 tonnes a year and enabled full use to be made of the steam previously passed through the by-pass condenser. A further fine salt evaporator was installed at the front end, as the first effect in a six-effect plant. Extra separation and drying capacity was installed. These changes raised the capacity of the Weston Point to about 1.095 million tonnes per annum.

APPENDIX 3.3
 (referred to in paragraph 3.51)

Mond Division Organisation as relevant to White Salt



Business Links: - - - - -
 (All Functions link appropriately to all Businesses)

APPENDIX 6.1
(referred to in Table 6.1)

ICI Weston Point: total sales, costs and profits

	<i>Years ended 31 December</i>						<i>6 months to 30.6.85</i>
	<i>1979</i>	<i>1980</i>	<i>1981</i>	<i>1982</i>	<i>1983</i>	<i>1984</i>	
Sales volume (kte)	915.8	824.2	669.6	722	636.1	707.4	378.5
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Net sales value	13,697	14,890	15,059	16,669	16,559	17,780	9,618
Variable production costs	4,289	4,950	4,950	6,856	6,877	8,112	4,627
<i>Gross margin</i>	9,408	9,940	10,109	9,813	9,682	9,668	4,991
Fixed production costs	2,568	2,702	2,651	3,032	3,432	3,376	1,577
Overheads	1,946	2,059	2,271	2,588	2,637	2,893	1,656
Depreciation	1,039	1,069	1,243	1,113	1,111	1,018	547
<i>Historical cost profit</i>	3,855	4,110	3,944	3,080	2,502	2,381	1,211
CCA adjustments	1,518	1,487	2,330	2,252	2,325	2,125	1,265
<i>Current cost profit</i>	2,337	2,623	1,614	828	177	256	(54)

Source: ICI.

APPENDIX 6.2
(referred to in Table 6.2)

ICI Weston Point: United Kingdom sales, costs and profits

	<i>Years ended 31 December</i>						<i>6 months to 30.6.85</i>
	1979	1980	1981	1982	1983	1984	
Sales volume (kte)	672	592	512	476	437	450	226
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Net sales value	10,894	12,274	13,042	13,939	13,944	14,475	7,721
Variable production costs	3,134	3,587	3,816	4,562	4,821	5,255	2,829
<i>Gross margin</i>	7,760	8,687	9,226	9,377	9,123	9,220	4,892
Fixed production costs	2,568	2,702	2,651	3,032	3,432	3,376	1,577
Overheads	1,946	2,059	2,271	2,588	2,637	2,893	1,656
Depreciation	1,039	1,069	1,243	1,113	1,111	1,018	547
<i>Historical cost profit</i>	2,207	2,857	3,061	2,644	1,943	1,933	1,112
CCA adjustments	1,518	1,487	2,330	2,252	2,325	2,125	1,265
<i>Current cost profit</i>	689	1,370	731	392	(382)	(192)	(153)

Source: MMC study of information provided by ICI.

APPENDIX 6.3
(referred to in Table 6.3)

British Salt: sales, costs and profits

	<i>Years ended 31 March</i>						<i>£'000</i>
	<i>1980</i>	<i>1981</i>	<i>1982</i>	<i>1983</i>	<i>1984</i>	<i>1985</i>	
Sales volume (kte)	702	587	649	570	553	604	
Sales revenue and other income	16,233	17,177	20,571	20,766	21,295	23,528	
Less Distribution expenses	2,462	2,374	2,537	2,541	2,370	2,533	
Net sales value	13,771	14,803	18,034	18,225	18,925	20,995	
<i>Expenditure</i>							
Fuel and power							[<i>Figures omitted. See note on page iv.</i>]
Other materials and services							
Finished stock movement	(443)	(605)	539	75	24	309	
Plant maintenance							[<i>Figures omitted. See note on page iv.</i>]
Depreciation	819	859	855	942	1,145	1,293	
Production labour costs							[<i>Figures omitted. See note on page iv.</i>]
Other expenses	1,610	1,718	1,980	2,174	2,719	3,083	
Management charge	135	145	173	174	342	450	
	8,716	9,148	10,862	11,241	11,908	13,828	
<i>Historical cost profit</i>	5,055	5,655	7,172	6,984	7,017	7,167	
Adjustments for current cost accounting	2,474	2,541	2,723	2,852	2,715	2,575	
<i>Current cost profit</i>	2,581	3,114	4,449	4,132	4,302	4,592	

Source: MMC study of information provided by British Salt.

APPENDIX 6.4
(referred to in Tables 6.1 and 6.2)

ICI Weston Point: average capital employed—total sales

	<i>£ million</i>					
	<i>Years ended 31 December</i>					
	<i>1979</i>	<i>1980</i>	<i>1981</i>	<i>1982</i>	<i>1983</i>	<i>1984</i>
<i>Table 1—historical cost</i>						
Average net fixed assets	7.8	7.3	8.0	6.9	6.1	5.8
Average net current assets	2.3	1.9	2.0	2.2	2.3	2.6
Average depreciated capital employed	10.1	9.2	10.0	9.1	8.4	8.4
<i>Table 2—current cost</i>						
Average net fixed assets	22.7	30.4	31.2	26.7	24.4	25.4
Average net current assets	2.3	1.9	2.0	2.2	2.3	2.6
Average depreciated capital employed	25.0	32.3	33.2	28.9	26.7	28.0

Source: ICI together with calculations by MMC of net capital employed on the basis of information provided by ICI.

Notes:

1. Average depreciated capital employed is calculated by ICI on the basis of the four quarters figures.
2. Average capital employed in respect of United Kingdom sales is arrived at for Table 6.2 by deducting export debtors from both the historical cost and current cost average net current assets for each year.

APPENDIX 6.5
(referred to in Table 6.3)

British Salt: average capital employed

	<i>£ million</i>						
	<i>Years ended 31 March</i>						
	<i>1979</i>	<i>1980</i>	<i>1981</i>	<i>1982</i>	<i>1983</i>	<i>1984</i>	<i>1985</i>
<i>Table 1—historical cost</i>							
Net fixed assets*	9.4	9.9	11.2	10.9	15.3	20.1	19.9
Stocks and debtors less creditors	0.6	1.3	2.4	2.0	1.7	1.4	1.0
Net liquid funds	0.6	0.3	0.2	0.5	0.5	0.5	1.5
Capital employed	10.6	11.5	13.8	13.4	17.5	22.0	22.4
Average capital employed	—	11.0	12.6	13.6	15.5	19.8	22.2
<i>Table 2—current cost</i>							
Net fixed assets†	25.0	26.3	27.3	26.5	26.6	27.1	25.6
Stocks and debtors less creditors	0.6	1.4	2.4	2.0	1.7	1.4	1.0
Net liquid funds	0.6	0.3	0.2	0.5	0.5	0.5	1.5
Capital employed	26.2	28.0	29.9	29.0	28.8	29.0	28.1
Average capital employed	—	27.1	29.0	29.5	28.9	28.9	28.6

Source: MMC study of information provided by British Salt.

* Freehold properties included in the historical cost accounts have been revalued in each of the years ended 31 March 1981, 1983, 1984 and 1985.

† The freehold properties of British Salt were professionally revalued in 1983, 1984 and 1985 and the figures were retrospectively adjusted for each of the earlier years 1979 to 1982 for the CCA submission to the Commission. (The figure for 1983 was also retrospectively adjusted to correct an error in the professional valuation included in the accounts for that year.)

APPENDIX 6.6
(referred to in paragraph 6.24)

ICI Weston Point: source and application of funds

	<i>Years ended 31 December</i>						<i>£ million</i>
	<i>1979</i>	<i>1980</i>	<i>1981</i>	<i>1982</i>	<i>1983</i>	<i>1984</i>	<i>Total</i>
<i>Source</i>							
Historical cost trading profit	3.9	4.1	4.0	3.1	2.5	2.4	20.0
Depreciation	1.0	1.1	1.2	1.1	1.1	1.0	6.5
<hr/>							
Total cash generated from operations	4.9	5.2	5.2	4.2	3.6	3.4	26.5
<i>Application</i>							
Working capital movement	0.1	(0.4)	0.1	0.2	0.1	0.3	0.4
<hr/>							
Net cash generated from operations	4.8	5.6	5.1	4.0	3.5	3.1	26.1
Fixed capital spending	1.0	2.6	0.4	0.2	0.4	0.5	5.1
<hr/>							
Cash available for tax, group loan interest and dividends	3.8	3.0	4.7	3.8	3.1	2.6	21.0

Source: MMC study of information provided by ICI.

APPENDIX 6.7
(referred to in paragraph 6.24)

British Salt: source and application of funds

<i>Source</i>	<i>Years ended 31 March</i>						<i>£ million</i>
	<i>1980</i>	<i>1981</i>	<i>1982</i>	<i>1983</i>	<i>1984</i>	<i>1985</i>	<i>Total</i>
Historical cost trading profit	5.1	5.6	7.2	7.0	7.0	7.2	39.1
Depreciation	0.8	0.9	0.9	0.9	1.1	1.3	5.9
Total cash generated from operations	5.9	6.5	8.1	7.9	8.1	8.5	45.0
<i>Application</i>							
Working capital movement	0.8	1.0	(0.4)	(0.2)	(0.4)	(0.4)	0.4
Bank and cash balances	(0.3)	(0.1)	0.3	(0.1)	0.1	1.0	0.9
Net cash generated from operations	5.4	5.6	8.2	8.2	8.4	7.9	43.7
Fixed capital spending	1.3	0.9	0.5	1.7	0.8	0.6	5.8
Trading cash flow available to British Salt	4.1	4.7	7.7	6.5	7.6	7.3	37.9
<i>Other British Salt applications</i>							
Loan capital repaid	—	0.8	1.0	—	—	0.6	2.4
Dividends paid RHM	0.4	0.3	0.2	3.0	—	—	3.9
Brine agreement BP	0.1	—	—	—	—	—	0.1
Net cash available to Staveley before taxation*	3.6	3.6	6.5	3.5	7.6	6.7	31.5

Source: MMC study of information provided by British Salt.

*Until June 1982 25 per cent of the shares were owned by RHM. Since the acquisition of this 25 per cent interest by Staveley all the funds have been available for Staveley subject to the powers of British Salt directors.

APPENDIX 9.1

(referred to in paragraph 9.39)

Views of the producers on price control

Staveley Industries PLC and British Salt Ltd

1. Staveley objected strongly to the possibility that the Commission might recommend control of increases in the price of white salt. In particular, Staveley considered that such a remedy carried with it the defect of substituting of administrative control for competitive pricing. If such a remedy also included some element of reduction in prices, this would be a disincentive to further efficiency and future investment. It would infringe Staveley's and British Salt's 'legitimate expectations' in the past if they had then reasonably considered that British Salt's efficiency and pricing policy would not lead to such a remedy. Such a remedy was also undesirable on policy grounds if it led companies to believe that they were entitled to a price increase merely by proving to an administrative authority that they had incurred costs of a particular level.

2. Staveley told us it would be more than disappointed if the Commission recommended the imposition of price controls on British Salt alone. Such a recommendation would be very unwelcome. It would regard it as entirely unjustified having regard to the evidence, and as unjust and contrary to principle. If ICI had achieved lower returns on capital employed than British Salt, was it seriously suggested that in the salt business, ICI, one of the foremost industrial groups was inefficient? Staveley also asked whether a comparison of the two producers' return on capital did not lead inevitably to the conclusion that at similar price levels to achieve better returns than ICI was much to the credit of the smaller undertaking. Staveley suggested that if by being inefficient British Salt's profit performance had paralleled that of ICI, the Commission would not be considering the recommendation of price controls solely on British Salt. A recommendation on these lines, in Staveley's view would clearly penalise British Salt's greater efficiency in the achievement of a performance which was better than average and presumably better than ICI's.

3. After publication of the Commission's report on Tampons,¹ Staveley drew attention to the returns on capital employed listed on page 43 of that report. When those returns were compared with British Salt's, Staveley said it found it even more difficult to understand any justification for price controls. British Salt had a growing need for capital investment, some of which would take some years to complete. The outcome of the present inquiry could well prejudice British Salt's willingness to spend further capital if the likely return was to be diminished.

Imperial Chemical Industries PLC

4. ICI considered that the imposition of price controls would imply despair of the competitive process in this industry. It would be better if the Commission

¹ Note: A report on the supply in the United Kingdom of Tampons (Cmnd 9705).

let the various competitive initiatives which ICI had in the pipeline have a chance to take effect.

5. Price control imposed on British Salt alone would, in ICI's view, also be an act of despair, just as much as controls on both the major producers would be. Control on British Salt alone would, because of the competitive forces in this market, effectively set the price levels for ICI and New Cheshire as well as for British Salt. Price control on British Salt would result in price levels for all the suppliers being determined externally, on an inevitably mechanistic basis, by the competition authorities. That would be the opposite of the competitive market that the Commission was charged by section 84 of the Fair Trading Act to maintain and promote. Moreover price control imposed on British Salt alone would actually weaken competition by the economic damage it would do to the white salt business of ICI (and no doubt also that of New Cheshire).

6. ICI's profitability was unduly low and any constraint on ICI being able to improve its profitability by investing more money in the business would reduce its incentive to do so and would make ICI question seriously the wisdom of staying in the market.

7. If ICI did decide to withdraw from the market, it foresaw the following consequences. There would be no more production of granular salt in the United Kingdom. Other forms of salt, for example white rock salt and salt tablets, would take the place of granular. Some of these substitutes would be imported. As for fine salt, British Salt did not have the capacity to supply all the demand in the United Kingdom. In addition some customers would in any case wish to have a second source of supply. ICI's withdrawal must surely lead to some displacement of home production by imports.

New Cheshire Salt Works Ltd

8. The comments of New Cheshire Salt Works Ltd (New Cheshire), also a producer of white salt, were as follows. In its view any system of price control which limited one producer's prices would automatically mean that the other producers' prices would find that level and would be limited in the same way. A limitation on price increases by reference to increases in cost experienced by the cheapest producer, would have the effect over a period of inhibiting the ability of the other producers to generate the cash flows necessary to invest in order to bring their costs into line with those of the cheapest producer. Limitations on price increases by reference to only one producer's costs could produce distortions whose effects might be unjustifiably severe on other producers. Any system which put a brake on manufacturers improving efficiency and cost effectiveness must surely be against the national interest.

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