

## The views of Pitney Bowes and Roneo Alcatel

### Market size and potential for growth

8.1. Pitney Bowes PLC and Roneo Alcatel pointed out that the market for postal franking machines was small compared with that for some other types of office equipment. Moreover postal franking machines faced competition from other means of paying for postage. For small users postage stamps were a real alternative and large users had other alternatives such as Postage Paid Impressions and rebate mail systems. The companies considered the prospects for future growth to be modest and to be found largely in persuading more users of stamps to use postal franking machines with the help of improvements in the performance and reductions in the cost of machines. Pitney Bowes PLC also saw some prospects for growth at the top end of the market where integration of postal franking machines into more complex mailing systems might improve control over postage costs. Roneo Alcatel thought the market would not grow much unless machines became substantially cheaper. But it also thought that the Post Office could help stimulate the market by granting discounts to users, expanding its service for resetting credit at users' premises or by adopting a current account system such as was used in some other European countries.

8.2. Pitney Bowes PLC and Roneo Alcatel put it to us that as a general rule the smaller the market, the fewer suppliers it could support. Pitney Bowes PLC also pointed out that despite the market's small size there were no fewer than five suppliers. Roneo Alcatel thought that the size of the market determined the type of retailing system it could support and that the number of machines in use limited the number of service organisations that would be viable. Neither company considered that economies of scale represented a barrier to the growth of the smaller suppliers.

8.3. Roneo Alcatel considered that there was room in the industry for companies of very different size and related this view to the five groups that operated internationally. It noted that Pitney Bowes had a home market in the United States of America of some 900,000 machines, all of which had rented meters, and a world-wide installed base of around 1,350,000 machines. Roneo Alcatel in the United Kingdom, CIT Alcatel in France and Siemens (Francotyp-Postalia) in Germany all had more than 50,000 machines in their respective home markets. But Hasler, although it had 75 per cent of the Swiss market, had a home base of only about 20,000 machines and a world-wide installed base of about 55,000 machines, and Frama had a home base of only a few thousand machines and a world-wide installed base of about 27,000 machines.

8.4. We asked Pitney Bowes PLC and Roneo Alcatel for their views on the likelihood that other companies not at present supplying postal franking machines in the United Kingdom might seek to enter the market. Pitney

Bowes PLC considered it conceivable that product innovation or a change in ownership might encourage further entry but Roneo Alcatel thought this unlikely unless a company achieved an important technological advance. Both companies suggested that manufacturers in the computer or communications industries might apply their expertise to postal franking machines and enter the market with new types of machines.

### **The Post Office regulations**

8.5. We asked the companies for their views on the effect of the Post Office regulations on the development and operation of the market. Neither company considered that the Post Office regulations were a barrier to entry; indeed, Pitney Bowes PLC thought that the Post Office requirements might well assist new entry as users could be confident that the new supplier was financially sound, that its machines had been tested and that adequate repair facilities were available.

8.6. We asked whether the Post Office regulations supported existing suppliers by limiting, or appearing to limit, supply to direct supply methods, and by requiring suppliers to keep in contact with users, thus giving them prior knowledge of a user's intentions to change his equipment. The companies put it to us that irrespective of the Post Office regulations suppliers of postal franking machines would be bound to be heavily involved in direct marketing. Pitney Bowes PLC also considered that the nature of the product dictated that its use be regulated by the Post Office and that suppliers were inevitably involved in installation and fitting of dies. Roneo Alcatel thought that there was no viable alternative to direct supply.

8.7. Neither company considered that the requirement that suppliers service their own machines affected competition. In their view suppliers competed on the basis of a package which included the price and quality of both the machine and the maintenance service.

### **The replacement market**

8.8. Pitney Bowes PLC and Roneo Alcatel accepted that they enjoyed some advantage over other suppliers in seeking replacement orders from their continuing contact with their existing customers but considered that all five suppliers competed actively in the replacement market. Pitney Bowes PLC also pointed out that the range of machines offered by the three smaller suppliers was, until 1984, largely in the medium to large category and therefore aimed primarily at the replacement market. It suggested that it was cheaper and easier to sell to the replacement market than to try to persuade stamp users to use a postal franking machine. The three small suppliers had benefited from the effort and investment expended by the established suppliers in developing the market.

8.9. Roneo Alcatel explained that each year it both lost some replacement orders to its competitors and gained some from them, though the gains and losses varied from year to year. Both companies thought that the preference

of a customer for buying a replacement machine from his existing supplier was heavily dependent on the degree to which the customer was satisfied with the existing supplier's products and service. Users could easily be persuaded to buy replacement machines from another supplier by an offer of improved price or performance.

### The terms of supply

8.10. We asked Pitney Bowes PLC why most of its meters were not available for sale or for leasing through third party leasing companies. It explained that its 5300 series meter was developed for the North American rental market and was designed therefore to be repaired only at the factory. A rented meter, or a meter leased via PB Leasing, which required repair could simply be replaced. This would not be practicable with a purchased meter or with a meter leased by a third party leasing company. It would be possible for a user to be lent a substitute meter while his own was being repaired but, the substitution, would have to be reversed after repair. This would add significantly to cost and would increase the work of the Post Office.

8.11. Pitney Bowes PLC had recently made 5300 series and R series meters available for purchase by, or third party leasing to, certain large customers, but this had been done to retain goodwill and it would have to absorb the costs that would arise if these meters required repair.

8.12. Pitney Bowes PLC explained that RMRS meters were not made available for purchase or third party leasing because they formed part of a package of continuing services and needed periodic factory refits. Its 6500 series electronic meter had not been made available for purchase or for third party leasing because the company could not repair it in the United Kingdom. It had been designed for the North American rental market and had to be sent for major repair to the United States.

8.13. Roneo Alcatel told us that it offered rental facilities only on its smaller 2205R and EFM7 machines. It did not provide a rental option for its larger machines because of the cash-flow requirements of financing a rental operation for them.

### Discounts

8.14. Pitney Bowes PLC and Roneo Alcatel explained that their sales staff and management had discretion to grant discounts to small users up to certain limits. The extent of discounting depended on pressure from customers and on the judgment of the sales staff as to the likelihood of a sale. The companies told us that the salesmen's commission was based on the value of sales and that discounts affected their earnings.

8.15. We asked whether the higher levels of discount given to larger customers could be cost justified. Pitney Bowes PLC explained that it gave higher discounts to major and special account customers because of competitive pressure, the purchasing power of these customers and cost savings from lower selling and administrative expenses. But it agreed that these discounts were larger than could be justified by the cost savings alone. To reduce

significantly the discount advantage large customers received would, it considered, lose it more revenue from them than it would gain in additional revenue from small customers. Roneo Alcatel told us that large orders helped it to plan production and economise on its sales effort and it took all these factors into account when setting prices.

## Competition

8.16. It was put to us by both Pitney Bowes PLC and Roneo Alcatel that they did not have any significant market power and that competition in the supply of postal franking machines was intense. They also submitted that although there was no outside competition in the supply of maintenance services, competition among the suppliers involved the price and quality both of the machines and the associated maintenance services.

8.17. Both companies maintained that the intensity of competition was demonstrated by the volatile nature of the market. The market shares achieved by each of them had fluctuated extensively over the last decade both absolutely and relative to each other. They also submitted that the rapid expansion of Hasler's market share and the ready availability of substitutes for postal franking machines such as postage stamps and Postage Paid Impressions were indications of strong competition both among the suppliers of postal franking machines and between them and alternative postal methods. The latter acted as a significant restraint on the pricing of postal franking machines.

8.18. Pitney Bowes PLC put it to us that competition was active in product innovation and improvement, pricing and discounts and in the quality and price of servicing and maintenance. It considered that there was a link between prices in real terms and market share in terms of placements: in 1981 an increase in its prices in real terms had been associated with a sharp decline in market share. Subsequent reductions in prices in real terms had been followed by a recovery of market share.

8.19. Pitney Bowes PLC told us that its corporate policy was to seek to expand market share profitably but it was not necessarily consistent with that policy to seek to make large gains in market share from competitors by aggressive pricing. It accepted that the higher its prices the better able were its competitors to make profits but its objective was not to set its prices at a level that enabled its competitors to make a comfortable profit.

8.20. It accepted that it was the price leader in the market in the sense that the other suppliers tended to follow movements in its prices. But while other suppliers would find it difficult, in the absence of a significant performance or functional feature, to charge more than Pitney Bowes PLC, it seemed as if in the past they had not found it difficult to charge less; it therefore acted as a price leader in a ceiling sense but not in a floor sense. Roneo Alcatel explained that in its present financial situation it was unable to take an aggressive approach to pricing and accepted that it followed Pitney Bowes PLC's price leadership.

## Price trends as an indicator of competition

8.21. Both companies contended that the recent history of price changes for postal franking machines demonstrated the intensity of competition. They considered that they were severely constrained as to the prices they could charge for reference goods and services.

8.22. Pitney Bowes PLC put it to us that over the last ten years there had been a considerable improvement in the price/performance of its integrated machines and the present cost of a package of separate meter and base plus required maintenance was approximately the same in real terms as it was ten years ago. Meter rentals (inclusive of maintenance) had fallen substantially in real terms between 1974 and 1984 and its discounts had risen significantly. Although the cost of bases had risen, this represented no more than an adjustment in the way the cost of a package was constructed.

8.23. Pitney Bowes PLC held that the relative stability of the cost of a package of rented meter, purchased base and contract maintenance could be demonstrated and provided us with indices of the cost of three packages, taking 1974 as the base year, on 1 January each year from 1974 to 1984. These are set out in Table 8.1.

TABLE 8.1 Indices of the cost of three Pitney Bowes PLC packages of purchased base, rented meter and contract maintenance for the base

	1974 = 100		
	<i>Package of 5510 base, 5333A meter and contract maintenance</i>	<i>Package of 5470 base, 5342A meter and contract maintenance</i>	<i>Package of 5610 base, 5342A meter and contract maintenance</i>
1974	1000	1000	1000
1975	88.1	87.4	88.8
1976	89.4	88.5	87.9
1977	87.3	89.4	87.3
1978	105.2	106.6	101.9
1979	105.4	108.1	106.7
1980	94.4	98.4	98.3
1981	108.0	112.4	111.8
1982	101.9	105.9	108.0
1983	99.2	104.4	107.7
1984	98.6	102.7	111.2

Source: Pitney Bowes PLC.

8.24. Pitney Bowes PLC explained that prices of those machines which it imported from the United States of America or which incorporated components imported from that country had been affected by the decline in the value of sterling against the United States dollar which occurred between 1981 and early 1984. The price increases it had felt able to make in response had not covered the increases in cost because of the paramount need to maintain and enhance the competitiveness of its products.

8.25. The company also told us that from November 1975 to December 1982 rentals had been increased on a number of occasions to take account of increases in the cost of maintenance. Although less than the increase in the

RPI these increases had met with very strong resistance from customers, many of whom cancelled their contracts. When the company introduced the RMRS meter in December 1982 it was looking to achieve a substantial improvement in price and performance which would increase its rental business. Conversion of 5300 series meters, which had been returned from rental, to RMRS meters enabled it to keep down costs and to set RMRS rental rates at especially attractive levels.

8.26. Roneo Alcatel put it to us that strong rather than weak price competition was indicated by the fact that different companies had been the first to initiate price increases and there were differences in the time lag before competitors responded and in the extent of average price rises.

8.27. The company did not consider that any useful comparison could be made between price trends for its older machines and its new electronic machines. Its experience with the launch and subsequent marketing of its EFM7 machine provided further evidence of the price sensitivity of the market. Sales dropped after a price increase but recovered with the offer of a free slogan block and some supplies, only to fall again because of the impact of Hasler's new competing machine.

### **New technology and price**

8.28. We asked Pitney Bowes PLC and Roneo Alcatel to explain why the introduction of electronics into postal franking machines had not resulted in lower prices in real terms as had been achieved by the manufacturers of other items of office equipment such as typewriters, copiers and computers.

8.29. They told us that reductions in the cost of electronic typewriters had been possible because technological progress had enabled vast reductions to be made in the number of moving parts. This had not been possible with postal franking machines. Pitney Bowes PLC said that the slow rate of change was not due to a lack of effort but arose from the difficulty manufacturers had experienced in obtaining significant savings in production costs while keeping the equipment secure. The Pitney Bowes group had experienced problems in developing electronic meters which were not affected by power failures or rough handling. Roneo Alcatel pointed out that it had taken the lead in applying micro-processing technology to its range of postal franking machines but considered that the scope for reducing production costs was limited. Both companies thought that new printing technology, while it could not be economically applied to postal franking machines at present, might in time produce some cost savings.

### **Maintenance charges**

8.30. Both companies told us that they did not think their maintenance charges were out of line with maintenance charges for other types of office equipment. Pitney Bowes PLC considered that its charges compared favourably not only with those for other types of office equipment but also with those levied by its competitors. Roneo Alcatel told us that it believed its pricing policies were appropriate to the nature of the business and that increases in recent years had been no more than was justified by the general level of labour costs.

## **Profits**

8.31. We asked both Pitney Bowes PLC and Roneo Alcatel to provide us with information, on the basis of an allocation exercise, on the profitability of the reference goods and services they supplied. Both companies produced figures for us and these are set out in Chapters 3 and 4. But they both told us that they did not produce or use the figures we requested in their internal financial management and control procedures and expressed reservations, though to different degrees, as to their accuracy.

8.32. Throughout the inquiry Pitney Bowes PLC expressed the view that any allocation would not accord with the way in which its business was run and would throw up economically and commercially meaningless figures. The company accepted that its reference business was fundamental to the profitability of the business as a whole and that the contribution made by other business was less than the contribution made by reference business, but insisted that there was no direct relationship between the contribution and profitability. It maintained that the only sensible measure of the company's performance for the purpose of the references was the performance of its business as a whole.

8.33. Pitney Bowes PLC put it to us that if we felt it essential to take a view on the profitability of reference goods and services it would be better for us to look to the results of a 'discontinuance' exercise it had prepared for 1983 with the help of its auditors. This was based on assessing what the costs and profits would be if its business were confined to reference goods and services. On that basis the company told us it would have earned £2.2 million less profit than it had in fact earned on all its activities.

8.34. We asked Pitney Bowes PLC what the likely results would be of another discontinuance exercise, on the same assumptions, but confining the company's business to non-reference goods and services. The company's representatives accepted that such an exercise would almost certainly produce a very much greater loss on non-reference goods and services than had resulted from the allocation exercise carried out by the company at our request. We comment on these matters in our conclusions (paragraph 9.42).

8.35. Roneo Alcatel explained that, while it had done its best to allocate profits between reference and non-reference goods and services on the bases that it thought most appropriate, the figures should be regarded as only the most approximate of guides and an unreliable basis from which to draw conclusions. It also told us that reorganisation of the company's business between 1979 and 1984 made meaningful comparisons of financial performance over the last five years more or less impossible. But it considered that, apart from the allocation of selling and administration costs to its maintenance activities, the figures which resulted from the allocation exercise were not far off reality.

## **The method of supply**

8.36. We discussed with Pitney Bowes PLC and Roneo Alcatel direct supply and its effects on the growth of the market. We also sought their views

on the practicality and desirability of involving office equipment dealers in the supply of postal franking machines, having regard to the expressions of interest we had received from distributors of office equipment during the course of our inquiry.

8.37. Both companies suggested to us that the small size of the market, the high unit value and the specialist nature of the product meant that dealers would generally find it unattractive. They thought that the trend towards dealer distribution of office equipment was limited to items such as typewriters and copiers for which the market was much larger and not restricted to business users.

8.38. Pitney Bowes PLC explained that effective marketing entailed significant outlays before sales were made. If it had to appoint dealers, it thought too little effort and expenditure would be devoted to pre-sales marketing; any dealer who devoted as much effort and expenditure to pre-sales marketing as it currently did would risk losing sales to dealers who spent less.

8.39. Roneo Alcatel doubted that it could offer terms that distributors would find sufficiently attractive to induce them to enter the market. It considered that the use of dealers would still involve it in substantial promotion and administrative work and this would cut into the margin available at current prices.

8.40. Both companies considered that dealer distribution would not relieve them of the need to market their equipment themselves, especially to first-time buyers to whom it was necessary to demonstrate the practical benefits of using postal franking machines. Pitney Bowes PLC added that marketing to larger users was increasingly part of the marketing of a more complex mailing system and this required the salesman to help users assess their needs, to demonstrate machines and to provide instruction to the user's personnel.

### **Third party maintenance services**

8.41. Both companies expressed similar reservations on independent maintenance services, which they did not think would be viable. Pitney Bowes PLC put it to us that there would be little demand for third party maintenance services. It also considered they would be inconsistent with the protection of the Post Office's revenue because the maintenance tie provided essential safeguards and minimised the possibility of fraud. If the regulations were relaxed the risk of fraud would increase significantly and it would also be more difficult to keep track of machines and franking dies.

8.42. Roneo Alcatel considered that a service operation would not be viable without a sales organisation, and *vice versa*, since each derived important economies and efficiencies from the other. The number of postal franking machines in use was very much smaller than that of other types of office equipment such as typewriters and copiers and was not large enough, or dense enough, to support a number of competing service organisations. If independent organisations were to take some of the market in large centres, where density was relatively high and costs lower, the suppliers would be left with low density and therefore costly rural areas.



8.43. Roneo Alcatel also considered that independent maintenance could lead to a fall in standards of service and would be more likely to raise rather than reduce the costs to the user. Independent maintenance organisations would have to assume financial and administrative obligations additional to those incurred in providing maintenance services for other types of office equipment and the Post Office would need to be satisfied about technical competence.

8.44. With regard to rented machines both companies put it to us that as owners of the equipment, it was reasonable that they should maintain them themselves. Pitney Bowes PLC also said that as machines leased via PB Leasing were the property of the group it was likewise reasonable for Pitney Bowes PLC to maintain such machines.

#### **Frequency of maintenance visits**

8.45. We asked Pitney Bowes PLC and Roneo Alcatel for their views on the frequency of maintenance visits required by the Post Office and whether they considered that there was scope for reducing it. Pitney Bowes PLC told us that maintenance visits served a dual purpose in that they were a check that meters had not been tampered with and that the machines were performing well mechanically. Unintentional error which caused the Post Office to lose revenue was, so Pitney Bowes PLC told us, much more common than fraud and long intervals between visits resulted in greater potential risks. Pitney Bowes PLC explained that it would not necessarily reduce the frequency of visits it made even if the Post Office were to reduce its requirements. Its decision would depend on the Post Office's attitude towards the liability of Pitney Bowes PLC in respect of machine failures. Roneo Alcatel on the other hand told us it would welcome a reduction in the frequency of maintenance visits. This would help it hold down its prices.

#### **The second-hand market**

8.46. We discussed with Pitney Bowes PLC and Roneo Alcatel their practices in relation to returned equipment and the effects of those practices on the development of a market for second-hand franking machines. Pitney Bowes PLC explained that it first began to buy back returned bases and meters from leasing companies at the latter's request, as there was no second-hand market sufficient to take up the available supply. In its view users were generally pleased to have Pitney Bowes PLC remove and dispose of their old machine when they replaced it. Although it was aware of two small second-hand dealers, it would be difficult for anyone to offer refurbished bases at a price which gave a significant saving on the cost of new bases and this militated against the development of a market in them. For the same reason the company generally found it uneconomic to do anything with returned bases other than scrap them.

8.47. PB Leasing considered that it would not be possible to create a second-hand market in reference goods. It thought this was a general problem with office equipment returned to leasing companies. PB Leasing also told us that if anyone was interested in buying second-hand mailing bases the company would be prepared to discuss the possibilities.

8.48. Roneo Alcatel does not refurbish any machine other than its 2205 model. It explained that so many modifications had been made to its 405 and 505 machines during their lifespan, that to bring second-hand ones up to an acceptable standard would be uneconomic. We asked Roneo Alcatel whether it would object if second-hand dealers wished to refurbish these machines. The company told us that as long as it had to take responsibility for machines in use it would not be happy about second-hand dealers refurbishing them.

### **Malpractices**

8.49. We discussed with Pitney Bowes PLC and Roneo Alcatel allegations of sales malpractices which we received during our inquiry and whether these might be linked to the levels of commission they paid to their salesmen. Both companies accepted that malpractices occurred but thought that their incidence was rare.

8.50. Pitney Bowes PLC considered its balance of commission and salary was in line with that of salesmen of other types of business equipment. It had to offer competitive terms to attract salesmen of adequate calibre. In its view its code of conduct and business practice guidelines were adequate to deal with any rare occurrence of sales malpractices. Sales representatives who contravened the guidelines or otherwise engaged in unethical sales practices were liable to disciplinary action and in serious cases to dismissal.

8.51. Roneo Alcatel told us that its salary and commission structure prior to 1 January 1985 (see paragraph 4.17) might have resulted in an unstable salesforce and contributed to overzealousness by its salesmen. It had therefore changed its remuneration system. The company recognised the importance both to the public interest and to its own reputation of ensuring as far as possible that unfair sales practices were avoided. Since we had referred to it certain practices about which we had received complaints from users, it had issued a statement to all its sales staff and service engineers, drawing to their attention, types of conduct that were forbidden and stating that disciplinary action would be taken (including dismissal if appropriate) against staff found to have engaged in those types of conduct.

### **The provision of price lists**

8.52. We discussed with Pitney Bowes PLC and Roneo Alcatel their policy on providing price lists. Neither company provides price lists to all its customers or potential customers though Pitney Bowes PLC provides them to some major customers and both companies said that they provided price information on request. Pitney Bowes PLC explained that its usual response to a request for brochures and price lists was to arrange for a salesman to call. Roneo Alcatel practice was to issue brochures and, if specifically asked, the list price of a machine but also thought that the best way of dealing with expressions of interest in postal franking machines was to arrange for a salesman to call.

8.53. The companies explained that they were not in favour of making price lists generally available. Roneo Alcatel told us that if we concluded that

there would be advantage to customers or potential customers in a more widespread dissemination of information about prices and other terms of supply, it would consider what could be done. In its view the relative advantages of different machines could be properly explained only by a salesman on a personal visit. Pitney Bowes PLC objected to making price lists generally available on the grounds that it was impractical and would give rise to significant extra costs as its full price list amounted to 232 pages. It believed that customers were satisfied with their present level of knowledge.

#### **The arrangements between Pitney Bowes PLC and PB Leasing Ltd**

8.54. We discussed both with Pitney Bowes PLC and PB Leasing the arrangements between them under which Pitney Bowes PLC promotes only the leasing service offered by PB Leasing. We also discussed a complaint put to us by Custom Leasing Ltd (see paragraphs 7.31 and 7.32) that Pitney Bowes PLC would not agree to offer its leasing facilities alongside those offered by PB Leasing.

8.55. Pitney Bowes told us that it was in the leasing business because it was a good business to be in and the integration of leasing with supply was an important aid to selling. Many customers liked to keep the whole package within the group rather than use a third-party leasing company. The ability to offer both facilities was in Pitney Bowes' view important not only for the interests of customers but also for its own interests. Pitney Bowes denied that PB Leasing's rates were higher than those of some other leasing companies. It explained that since a high proportion of PB Leasing's business in reference goods was done at below its standard rates, it was inappropriate to compare them with other companies' average actual rates. PB Leasing considered that its rates had been and remained competitive.

8.56. Pitney Bowes PLC told us that during our inquiry it had made a wider range of its products available for leasing via third party leasing companies but that there had been no significant demand for third party leasing. It also told us that it did not allow its salesmen to promote third party leasing companies such as Custom Leasing as it saw no reason to promote competing services. Customers who wished to use third party leasing companies were, however, free to do so.

8.57. We put it to Pitney Bowes that the arrangements between Pitney Bowes PLC and PB Leasing and Pitney Bowes PLC's policy of promoting only PB Leasing, restricted competition. Pitney Bowes submitted that if they were restrictive in any way they would restrict competition in the financing business. In its view leased assets amounting to £15 million per annum (even assuming PB Leasing's business was half of the total postal franking machine business in the United Kingdom) were very small and could not be taken as prejudicing other finance companies.

#### **The provision of technical information to suppliers of electronic mailing scales**

8.58. We discussed with Pitney Bowes and Roneo Alcatel the provision of technical information to independent suppliers of electronic mailing scales

that would enable them to link their scales to Pitney Bowes' and Roneo Alcatel's electronic meters.

8.59. Pitney Bowes told us that the relevant patent rights and technical information belonged to Pitney Bowes Inc and that the technical information was not held in the United Kingdom. Pitney Bowes Inc told us that it was willing to grant licences and supply technical information to independent suppliers of electronic mailing scales on terms that it considered reasonable. It had already granted licences to two United States suppliers and was negotiating with a third. In June 1985 it had made offers to the two United Kingdom suppliers who had previously complained to us that they had tried but failed over a number of years to obtain the technical information they needed to interface (see paragraphs 7.26 to 7.30). Pitney Bowes Inc considered that licensing agreements were a matter for commercial negotiation; its policy was to negotiate flexibly and to take account of all the relevant factors in seeking agreement on the terms of a licence.

8.60. Roneo Alcatel told us that its present range of meters did not have the capability to interface with electronic mailing scales, though its parent company, CIT Alcatel, supplied such a meter in France. CIT Alcatel told us that it did not make technical information available or grant licences to enable independent suppliers of electronic mailing scales to interface with its meters. Roneo Alcatel told us that if it introduced in the United Kingdom a postal franking machine capable of interfacing, its policy would be the same as that of its parent company. It considered that electronic scales interfaced with electronic meters were parts of a single system and that the supply of electronic scales from other sources might give rise to security problems and disputes over liability in the event of faults.

#### **Patent licensing agreement between Pitney Bowes Inc and CIT Alcatel SA**

8.61. We discussed with Pitney Bowes and with the CIT Alcatel group the effects on competition and on technical innovation in the United Kingdom of two of the terms of the cross-licensing agreement entered into by Pitney Bowes Inc and CIT Alcatel with effect from 1 January 1985 (the 1985 agreement). These terms, which are described in paragraph 3.17 (b) and (c) provide for the grant by CIT Alcatel to Pitney Bowes Inc of a 'pick option' under which the latter may require CIT Alcatel to grant it non-exclusive licences on up to eight future CIT Alcatel patents registered in any country outside the United States of America and Canada before 30 October 2000. They also prevent CIT Alcatel from requesting a patent licence from a third party on terms that would exclude the third party or CIT Alcatel from granting Pitney Bowes Inc a licence or a sub-licence under that patent ('the licensing restriction').

8.62. Pitney Bowes explained that the 1985 agreement had been entered into freely by CIT Alcatel. CIT Alcatel had been offered a pick option during the negotiations but had preferred to make a smaller lump sum payment. Pitney Bowes did not see the agreement as in any way anti-competitive. As a result of it Roneo Alcatel and CIT Alcatel were free to use Pitney Bowes' patented technology without fear of patent infringement litigation. The licence granted by Pitney Bowes Inc was non-exclusive as would be any

licence granted to Pitney Bowes Inc by CIT Alcatel under the pick option. Pitney Bowes considered that non-exclusive licensing enhanced competition because machines incorporating any invention licensed by CIT Alcatel to it under the pick option would be available from two manufacturers rather than one. Pitney Bowes considered that the pick option would not discourage Roneo Alcatel or CIT Alcatel from investing in research and development; companies had to innovate in order to survive.

8.63. Pitney Bowes also told us that it did not see the licensing restriction as in any way restrictive. Its purpose was to prevent unfair avoidance of the pick option by CIT Alcatel by procuring a third-party as licensor. It would not prevent third parties who wished to license CIT Alcatel only and not Pitney Bowes Inc from so doing.

8.64. CIT Alcatel told us that, while it would have liked to be able to exploit any developments it made to its best advantage, its major concern in negotiating the 1985 agreement with Pitney Bowes Inc had been to remove the risk that Pitney Bowes Inc would take patent infringement proceedings against it and against Roneo Alcatel which might prevent either company from manufacturing or selling any of their electronic range of machines.

8.65. CIT Alcatel and Roneo Alcatel recognised that the pick option might operate against the public interest in so far as Pitney Bowes were able to prevent them from gaining a competitive advantage through technical innovation, with consequential effects on their research and development programmes. But they both expressed concern, as did Pitney Bowes, that any striking down of the pick option and the licensing restriction as far as the United Kingdom was concerned might affect the validity of the agreement as a whole. CIT Alcatel and Roneo Alcatel thought that if the agreement was invalidated, Roneo Alcatel would be open to litigation which might prevent it manufacturing or selling its current range of machines in the United Kingdom.