

setting forth in detail the manner and form in which it has complied with the order to cease and desist.

Chairman Kintner not participating.

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IN THE MATTER OF

R. J. REYNOLDS TOBACCO COMPANY

CONSENT ORDER, ETC., IN REGARD TO THE ALLEGED VIOLATION OF  
SEC. 2(D) OF THE CLAYTON ACT

*Docket 6848. Complaint, July 24, 1957—Decision, Sept. 9, 1959*

Consent order requiring one of the country's leading manufacturers of cigarettes and other tobacco products to cease violating Sec. 2(d) of the Clayton Act by such practices as paying to some customers but not to their competitors, allowances in varying amounts determined by individual negotiation, not proportionally equal by any test, and including payments to vending machine operators but not to their retailer competitors, and allowances to certain customers in consideration for advertising and promoting its cigarettes.

COMPLAINT

The Federal Trade Commission, having reason to believe that R. J. Reynolds Tobacco Company, a corporation, hereinafter designated as respondent, has violated and is now violating the provisions of subsection (d) of Section 2 of the Clayton Act, as amended by the Robinson-Patman Act (U.S.C. Title 15, Section 13), hereby issues its complaint stating its charges with respect thereto as follows:

PARAGRAPH 1. Respondent, R. J. Reynolds Tobacco Company, is a corporation organized and doing business under and by virtue of the laws of the State of New Jersey, with its executive offices located in the Reynolds Building, Winston-Salem, North Carolina.

PAR. 2. Respondent is now, and for a number of years past has been, engaged in the business of manufacturing, selling and distributing cigarettes, pipe and chewing tobaccos, hereinafter sometimes referred to as products. Said products are sold to customers with places of business located in the several States of the United States and in the District of Columbia, for resale to the purchasing public. Respondent is a substantial factor in the tobacco industry. It has branch offices, factories, and warehouses located in a number of States. Its net sales in 1956 exceeded \$900,000,000.

PAR. 3. In the course and conduct of its business respondent has engaged in commerce, as "commerce" is defined in the Clayton Act, as amended, having shipped its products from the place where such

products are manufactured in various States of the United States to its customers having places of business located in other States of the United States and in the District of Columbia. There is now and has been a constant stream of trade and commerce in respondent's products among the various States of the United States and in the District of Columbia.

PAR. 4. In the course and conduct of its business in commerce, as aforesaid, respondent has paid, or contracted to pay, money, goods, or other things of value to or for the benefit of some of its customers as compensation in consideration for services and facilities furnished, or contracted to be furnished, by or through such customers in connection with the processing, handling, sale or offering for sale of the products which respondent manufactures, sells, or offers for sale; and respondent has not made or contracted to make such payments or considerations (hereinafter referred to as allowances) available on proportionally equal terms to all its other customers competing in the sale and distribution of such products.

PAR. 5. Specifically, respondent during the past six years:

1. Paid allowances in varying amounts to some customers, but did not do so or offer to do so, in any amount, to other competing customers.

2. In paying such allowances to competing customers, did so in amounts not equal to the same percentage of such competing customers' net purchases and not proportionally equal by any other test; and did not offer or otherwise accord or make available such allowances to all such competing customers in amounts equal to the largest of such percentages, or proportionally equal by any other test.

3. In offering such allowances to competing customers, conditioned such offers upon the use of advertising displays which could only be used by a restricted number of said customers.

4. In determining allowances to be paid competing customers, did so on the basis of individual negotiations with each such customer, which resulted in proportionally unequal, different and arbitrary terms.

PAR. 6. Allowances paid by respondent, in the manner alleged in Paragraph 5, include those granted to certain customers who operate vending or merchandising machines, in consideration for the distribution and promotion of respondent's brands of cigarettes by such customers in their vending machines. Under a match distribution program, during 1955, for example, respondent paid approximately \$321,000 to such customers for the promotion and distribution of its Winston and Cavalier cigarettes, at the annual rate of either \$7.20 or \$3.60 per vending machine, depending on whether one or both

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## Complaint

brands of respondent's cigarettes were placed and distributed through said vending machines. Under its match distribution program in 1956, respondent paid approximately \$900,000 to vending machine operators for the promotion and distribution of its Winston, Cavalier and Salem cigarettes through their vending machines. The great majority of respondent's customers who receive allowances under this program compete in the trading areas where their machines are located with tobacco wholesalers and retailers who are likewise customers of respondent. Respondent has not made any allowances available to some of these other customers, and in instances where allowances have been made available to some of these other customers, such allowances have not been offered nor paid on proportionally equal terms. Examples of allowances paid vending machine operators by respondent are listed as follows:

| <i>Customers</i>                                                       | <i>Allowances<br/>1st 6 Mos.</i> |             |
|------------------------------------------------------------------------|----------------------------------|-------------|
|                                                                        | <i>1955</i>                      | <i>1956</i> |
| Mystic Automatic Sales Co.,<br>55 Salem Street,<br>Medford, Mass.      | \$1,906                          | \$3,052     |
| Cigarette Service Co., Inc.,<br>179 Sidney Street,<br>Cambridge, Mass. | 2,100                            | 1,903       |
| Winrox Vending Co., Inc.,<br>162 Lawton Street,<br>Brookline, Mass.    | 488                              | 511         |
| Self Service Sales Corp.,<br>196 Capen Street,<br>Hartford, Conn.      | 347                              | 236         |
| New Haven Tobacco Company,<br>25 George Street,<br>New Haven, Conn.    | 315                              | 208         |

PAR. 7. Allowances paid by respondent, in the manner alleged in Paragraph 5, include those offered and paid to certain customers, but not offered on proportionally equal terms to other competing customers, in consideration for services furnished in advertising and promoting respondent's products and for the placement in such customers' places of business of advertising displays which advertised the respondent's brands of cigarettes. For example, The American News Company in 1955, was paid through an affiliate, Shamrock Matches, Inc., an allowance exceeding \$5,000.00 in consideration for advertising respondent's products on book matches and distributing said book matches through the retail establishments of The American News Company and its subsidiaries located throughout the United States, and for the placement of counter displays advertising and featuring respondent's brands of cigarettes in said retail establish-

ments. In 1956, The American News Company was paid through its subsidiary, The American Match Company, an allowance exceeding \$10,000 in consideration for advertising respondent's products on book matches and distributing said book matches through the retail establishments of The American News Company and its subsidiaries located throughout the United States, for the placement of counter displays advertising and featuring respondent's brands of cigarettes in said retail establishments, and for maintaining and distributing respondent's brands of cigarettes in vending machines operated by The American News Company and its subsidiaries. Allowances on proportionally equal terms were not made available to other customers of respondent who compete with the retail establishments of The American News Company and its subsidiaries in the resale of respondent's brands of cigarettes.

PAR. 8. The acts and practices of the respondent, as above alleged, violate subsection (d) of Section 2 of the Clayton Act, as amended by the Robinson-Patman Act (U.S.C. Title 15, Section 13).

*Mr. William J. Boyd, Jr., Mr. Jerome Garpinkel and Mr. Arthur J. Hessburg, for the Commission.*

*Davis, Polk, Wardwell, Sunderland & Kiendl, by Mr. Taggart Whipple, of New York, N.Y., for respondent.*

INITIAL DECISION BY J. EARL COX, HEARING EXAMINER

The complaint alleges that respondent has paid or contracted to pay money, goods, or other things of value to some of its customers as compensation for services and facilities furnished or contracted to be furnished by or through such customers, in connection with the sale and distribution in commerce of respondent's cigarettes and other tobacco products.

The complaint further alleges that respondent has also granted allowances to certain of its customers who operate vending machines, in consideration for the distribution and promotion by such customers of respondent's brands of cigarettes.

The complaint charges that such compensation and allowances were not made available on proportionally equal terms to all of respondent's other customers who compete with such favored customers in the sale and distribution of respondent's said products, in violation of §2(d) of the Clayton Act, as amended by the Robinson-Patman Act (U.S.C., Title 15, §13).

After the issuance of the complaint, respondent, its counsel, and counsel supporting the complaint entered into an agreement containing consent order to cease and desist, which was approved by the Director and an Assistant Director of the Commission's Bureau of

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## Decision

Litigation, and thereafter transmitted to the Hearing Examiner for consideration.

Respondent R. J. Reynolds Tobacco Company is identified in the agreement as a New Jersey corporation, with its office and principal place of business located in the Reynolds Building, Winston Salem, North Carolina.

The agreement provides, among other things, that respondent admits all the jurisdictional facts alleged in the complaint, and agrees that the record may be taken as if findings of jurisdictional facts had been duly made in accordance with such allegations; that the record on which the initial decision and the decision of the Commission shall be based shall consist solely of the complaint and this agreement; and that the order to cease and desist, as contained in the agreement, may be entered in this proceeding by the Commission, without further notice to respondent. All parties agree that the agreement shall not become a part of the official record unless and until it becomes a part of the decision of the Commission.

The agreement is entered into subject to the condition that the effective date of the initial decision based thereon shall be stayed by the Commission, and that such initial decision shall not become the decision of the Commission in this matter unless and until the Commission issues an order to cease and desist in the Matter of *Liggett & Myers Tobacco Company, Inc.*, Docket 6642. All parties further agree that in the event the order of the Commission to cease and desist in said Docket 6642 should be more favorable in any respect than the order herein is to respondent, as a result of action by the Commission or a final order by the Courts, then, on application by respondent to the Commission, the order to cease and desist herein shall be modified or set aside in accordance with such order in said Docket 6642; and that if said order in Docket 6642 should be more favorable by reason of any findings of fact or conclusions of law in that proceeding, then the order herein shall likewise be construed in the light of such findings of fact or conclusions of law.

The agreement further provides that the complaint herein may be used in construing the terms of the order agreed upon, which may be altered, modified or set aside in the manner provided for other orders; that the agreement is for settlement purposes only and does not constitute an admission by respondent that it has violated the law as alleged in the complaint; and that the order set forth in the agreement and hereinafter included in this decision shall have the same force and effect as if entered after a full hearing.

Respondent waives any further procedural steps before the hearing examiner and the Commission, except as hereinabove set forth; the

making of findings of fact or conclusions of law; and all of the rights it may have to challenge or contest the validity of the order to cease and desist entered in accordance with the agreement, except the right to move for postponement of compliance with said order.

The order agreed upon fully disposes of all the issues raised in the complaint, and adequately prohibits the acts and practices charged therein as being in violation of §2(d) of the Clayton Act as amended by the Robinson-Patman Act (U.S.C., Title 15, §13). Accordingly, the hearing examiner finds this proceeding to be in the public interest, and accepts the agreement containing consent order to cease and desist as part of the record upon which this decision is based. Therefore,

*It is ordered.* That respondent, R. J. Reynolds Tobacco Company, a corporation, its officers, agents, representatives or employees, directly or through any corporate or other device, in or in connection with the offering for sale, sale or distribution of its cigarettes, in commerce, as "commerce" is defined in the Clayton Act, as amended, do forthwith cease and desist from:

Paying or contracting for the payment of anything of value to, or for the benefit of, any customer of respondent as compensation or in consideration for any services or facilities furnished by or through such customer in connection with the offering for sale, sale or distribution of any of respondent's products, unless such payment or consideration is made available on proportionally equal terms to all other customers competing in the distribution of such products.

DECISION OF THE COMMISSION AND ORDER TO FILE  
REPORT OF COMPLIANCE

The hearing examiner, on July 31, 1958, having filed his initial decision in this proceeding accepting an agreement containing a consent order to cease and desist theretofore executed by respondent and by counsel supporting the complaint, which agreement specified, among other things, that said initial decision was not to become the decision of the Commission until and unless the Commission issued an order to cease and desist in the matter of *Liggett & Myers Tobacco Company, Inc.*, Docket No. 6642; and

The Commission, on the 9th day of September, 1959, having adopted as its own the order to cease and desist contained in the initial decision of the hearing examiner in said matter of *Liggett & Myers Tobacco Company, Inc.*, Docket No. 6642:

*It is ordered.* That the initial decision of the hearing examiner be, and it hereby is, adopted as the decision of the Commission.

*It is further ordered.* That respondent, R. J. Reynolds Tobacco

BROWN & WILLIAMSON TOBACCO CORP.

Complaint