

**Statement of the Federal Trade Commission
In the Matter of Reynolds American, Inc. and Lorillard Inc.
File No. 141-0168
May 26, 2015**

The Federal Trade Commission has voted to accept for public comment a settlement with Reynolds American, Inc. (“Reynolds”) to resolve the likely anticompetitive effects of Reynolds’ proposed acquisition of Lorillard Inc. (“Lorillard”).¹ The settlement will allow the acquisition to move forward, subject to large divestitures by the parties to another major competitor in the tobacco industry.

The merging parties chose to present this acquisition to the Commission with a proposed divestiture aimed solely at securing our approval of the acquisition.² As proposed, Reynolds will purchase Lorillard for \$27.4 billion and then immediately divest certain assets from both Reynolds and Lorillard to Imperial Tobacco Group plc (“Imperial”) in a second \$7.1 billion transaction. At the end of both transactions, Reynolds will own Lorillard’s Newport brand and Imperial will own three former Reynolds’ brands, Winston, Kool and Salem, as well as Lorillard’s Maverick and e-cigarette Blu brands, and Lorillard’s corporate infrastructure and manufacturing facility.

As we explain below, we have reason to believe that Reynolds’ proposed acquisition of Lorillard is likely to substantially lessen competition in the market for combustible cigarettes in

believe that the transaction would eliminate competition between Reynolds' Camel brand and Lorillard's Newport brand. For example, we found evidence that Camel has been seeking to gain market share from Newport. There is also evidence of discounting by Newport in response to Camel. In addition, our econometric analysis showed likely price effects resulting from the

Kool through discounting on a state-by-state basis. The evidence shows that Imperial can grow the market share of these brands through discounting and other promotional activity.

In her dissent, Commissioner Brill questions Imperial's ability to restore the competition lost due to the Reynolds-Lorillard transaction, noting that the Winston and Kool brands have been declining for years.⁶ In our view, however, Reynolds' track record with these two brands is not indicative of their potential with Imperial. As Commissioner Brill acknowledges, Reynolds made a conscious decision to promote Camel and Pall Mall aggressively as growth brands, and to put limited marketing support behind Winston and Kool. Going forward, Imperial will have greater incentives to promote Winston and Kool than Reynolds did because, unlike Reynolds, Imperial does not risk cannibalizing other brands in its portfolio. Moreover, Imperial is also acquiring Lorillard's Maverick, a value brand that competes well with Reynolds' Pall Mall.

Imperial has a successful record of repositioning cigarette brands

For these reasons, we are allowing the merger of Reynolds and Lorillard to go forward and accepting a consent decree to ensure that the divestitures to Imperial occur on a timely and effective basis.⁷

⁷ Although he agrees that the merger of Reynolds and Lorillard is likely to substantially lessen competition and that a consent order increases the likelihood that the divestitures to Imperial are properly and promptly effectuated, Commissioner Wright believes a consent order is unwarranted and on that basis dissents. We respectfully disagree with Commissioner Wright's suggestion that our action is improper under these circumstances. Our obligation under the Hart-Scott-Rodino Act is to take appropriate steps to ensure that any competitive issues with a proposed transaction are addressed effectively and that is consistent with