

**FTC Analysis Shows Tobacco Deal Will Produce a Windfall for the Tobacco Industry**  
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By Henry A. Waxman

Today the FTC released the first comprehensive economic analysis of the tobacco settlement. The FTC report was prepared at the request of Congressmen Hames B. Hansen, Martin T. Meehan, and Henry A. Waxman. Rep. Waxman stated:

"This study shows the tobacco settlement is even a better deal for the tobacco industry than anyone had imagined. Not only does the deal immunize them from liability, the deal gives them a \$123 billion exemption from antitrust laws.

The FTC report shows tha the tobacco companies are likely to make even more money from the U.S. tobacco market under the deal than they would without a deal. In fact, the deal could boost industry profits by \$123 billion over the life of the deal. This is equivalent to \$3.6 billion a year – a 50 percent increase over current operating profits.

Among the major findings of the FTC report are the following:

- The draft settlement contains unduly broad antitrust immunity, which will enhance the ability of cigarette companies to coordinate price increases. This provision will allow for explicit discussion of pricing, thereby encouraging collusion. The industry will therefore be able to raise prices beyond what would be required to make their annual payments.
- This coordination would have dramatic consequences. If prices are only increased moderately, the industry operating profits are projected to rise to \$140 billion -- \$36 billion more than currently anticipated. This represents a 35 percent increase in operating profits.
- If the tobacco industry coordinates more closely and passes on larger price increases, their operating profits could total \$227 billion - an increase of over \$123 billion - or nearly 120 percent.
- The settlement is unlikely to generate the \$368 face value posited as the settlement payments. The payments are expected to total \$242 billion over 25 years or \$118 billion in terms of present value.
- Even in the absence of any antitrust exemption, only \$15 billion of the \$368 face amount of the settlement is expected to come from reduced tobacco profits. the bast majority of the payments will be paid by smokers in the form of higher prices. This means that the tobacco companies would be able to purchase immunity from liability for only \$800 million per year in reduced profits.

[Read the FTC report](#)



