

Robert Sinclair from 1954 to 1959 the proportion varied between 83 per cent. and 67½ per cent. In the case of Finlay the proportion was 70 per cent. in 1954 and 57½ per cent. in 1959. The three companies provide Imperial with sales information as required and are consulted when Imperial is seeking information on matters relating to the distributive side of the trade.* In 1952, for example, when Imperial was considering the possible implications of a free market, the company thought it might be helpful to ascertain the views of the three companies, although the distributors generally were not to be informed of Imperial's plans until these were about to be put into effect. Again in 1955 Imperial had discussions with Bewlay and Finlay, as well as with the branches, before deciding to re-issue automatic vending machines. Also in 1955, when multiple retailers were dissatisfied with their position and were pressing the manufacturers for better terms, the Managing Director of Finlay kept Imperial in touch with the views of multiple tobacconists who were members of the Multiple Shops Federation (see footnote * on page 75).†

CHAPTER 4. OTHER MANUFACTURERS

(1) GENERAL

159. There were at the beginning of the present century some 500 manufacturers of tobacco and cigarettes (see paragraph 46); there are now 24 from all of whom we have received evidence.‡ We have also received evidence from a number of former manufacturers, most of whom went out of business between 1951 and 1957. The reasons they have given for ceasing manufacture include: (i) a falling off in demand for the products concerned; (ii) the difficulty of recruiting labour; (iii) the burden of financing the high rates of duty and difficulties raised by Customs and Excise legislation generally; and (iv) the difficulty of competing with the large companies with their greater financial resources. We give further information on these matters in Chapter 14. Seventeen other manufacturers, among them several old-established and well-known makers of pipe tobaccos, are known to have been taken over by others since 1945.§

160. Many of the manufacturers at present operating have connections with the industry dating back to the 19th or 18th centuries; there have been very few new entrants in the past 60 years. In paragraph 4 we give the names of the eight largest manufacturers of recent years after Imperial, with the value of their sales and other particulars. The sixteen smaller companies include a few old-established family businesses whose trade is based mainly on the cheaper hard pipe tobaccos (and also on snuff), which they sell locally. According to Imperial

* Imperial also receives information concerning sales from other distributors in which it has no financial interest—see paragraph 236.

† Finlay points out that its Chairman was at that time also Chairman of the multiple tobacconists' group.

‡ One of the 25 referred to in paragraph 4 stopped manufacturing during 1960 (see paragraph 182). In addition to the present 24 there are a few undertakings producing their own blends of pipe tobaccos in very small quantities or making hand-made cigarettes from tobacco processed and cut by other concerns.

§ For example: Murray, Sons & Co. Ltd., taken over by Carreras Ltd. in 1953; Cope Brothers & Co. Ltd., taken over by Gallaher Ltd. in 1953. George Dobie & Son Ltd. went out of business in 1956 and the company's goodwill and trade marks, together with one of its subsidiaries, were taken over by Godfrey Phillips Ltd.

(see paragraphs 445 and 447) there were in 1959 about 217 brands of cigarettes and some 430 brands of tobacco on the home market, of which 160 brands of cigarettes and some 250 brands of tobacco belonged to manufacturers other than Imperial.

161. Of the larger manufacturers, the two Co-operative Wholesale Societies have not played a conspicuous part in the industry as producers. The manufacture of tobacco goods is only a very small part of their activities; it is only in recent years that their output has been comparable in size with that of some of the other manufacturers named, and this is due not to any expansion of their own production but to a very sharp fall in the output of those other manufacturers. The success of Gallaher Ltd. since the war has been accompanied by a decline in the share of sales of Imperial's other competitors as well as of Imperial itself. We have no precise figures for years earlier than 1954, though it is clear that Gallaher's share of the market in that year was appreciably higher than it had been at the end of the war. The table below shows how the position has changed since 1954 and it will be seen that, although the aggregate share of manufacturers other than Imperial and Gallaher has increased slightly in the last two or three years,* it was still substantially lower in 1959 than in 1954.

Shares of Total Sales (by value) of Cigarettes and Tobacco in the United Kingdom

| | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 |
|---------------------------------------------------------------|------|------|------|------|------|------|
| | % | % | % | % | % | % |
| Imperial | 75.4 | 78.8 | 76.1 | 71.4 | 67.6 | 63.4 |
| Gallaher | 11.2 | 15.2 | 18.6 | 22.5 | 26.1 | 29.3 |
| Ardath, Carreras, Godfrey Phillips, Rothmans and J. Wix .. | 11.9 | 4.6 | 4.3 | 5.1 | 5.5 | 6.6 |
| Others | 1.5 | 1.4 | 1.0 | 1.0 | 0.8 | 0.7 |

162. Apart from Imperial and the two Co-operative Societies, the issued capital of the larger companies ranges from just over £1 million to nearly £26½ million; with one exception all are public companies. Three of them (Carreras Ltd., Gallaher Ltd. and Godfrey Phillips Ltd.) have each a number of subsidiaries engaged in tobacco and cigarette manufacture, two (Carreras and Gallaher) have subsidiaries concerned with the manufacture of tobacco machinery (see paragraphs 282 and 292) and another (Godfrey Phillips) has subsidiaries concerned with the supply of materials, printing and other activities. Nearly all the sixteen smaller manufacturers are private companies. Their organisation is generally simple; few have any subsidiary interests; none now operates more than one factory. Four of those making only tobacco have also wholesaling interests and in at least one case this interest is now the predominant part of the business.

163. Four companies are owned or controlled by interests outside the United Kingdom. In 1927 members of the Wix family sold J. Wix & Sons Ltd. to the American Tobacco Company of New York (see paragraph 62). In 1954 Rothmans Ltd. became a subsidiary of the Rembrandt Tobacco Corporation (S.A.) Ltd. of South Africa and in 1958 Rembrandt's British subsidiary acquired

* Due to increased sales by J. Wix & Sons Ltd. and Rothmans Ltd.—see paragraph 4.

a controlling interest in Carreras. Philip Morris & Co. Ltd., one of the smaller companies, which is engaged only in cigarette manufacture, is effectively owned by Philip Morris Incorporated of the United States.

164. With the exception of the Co-operative Societies and Rothmans,* all the larger manufacturers were parties to the Martin Agreement (see paragraph 63) and to an understanding covering the introduction of filter tipped cigarettes (see paragraph 84); Carreras, Gallaher and Godfrey Phillips were also parties to an understanding with Imperial concerning Walters Tobacco Co. Ltd. (see paragraph 68).

165. We give below further information concerning Imperial's principal competitors (Gallaher, Ardath, Carreras, Rothmans, Godfrey Phillips and J. Wix), including particulars of Imperial's financial interests in Gallaher and Ardath. Imperial also holds, or has held, a token number of shares in fifteen other manufacturers. In nearly all cases the holdings are of preference shares; all are registered in the name of nominees. Imperial has told us that it has been the company's practice to acquire small holdings in other tobacco manufacturing concerns so that it may see their accounts and keep its intelligence concerning the activities of its competitors as complete as possible. We have noted from Imperial's records that in 1956 Imperial was represented at two general meetings of one of these companies, when the question of that company's entry into the coupon cigarette market was discussed: Imperial has said that it was considerably interested in this matter at the time and therefore wished to know what was said. Imperial has told us that on one occasion in 1952 and on three occasions in 1956 it was also represented at meetings of a second company. These are the only occasions when Imperial has been represented at the meetings of any of the fifteen companies; its representatives took no part in the proceedings.

(2) GALLAHER LTD.

166. The business was founded by Thomas Gallaher in Londonderry in 1857; in 1863 it moved to Belfast. In early years it was concerned principally in manufacturing hard tobaccos, although when its founder died in 1927 it was also making some cigarettes, including Park Drive. Gallaher Ltd. was formed in 1896 and in 1928 became a public company. In 1932 Imperial acquired a majority interest in the equity of Gallaher, which it retained until 1946, since when Imperial's interest has been less than 50 per cent. (see paragraph 172 below).

167. Since 1932 Gallaher has acquired a number of subsidiary interests engaged in cigarette and tobacco manufacture. In 1934 the company acquired Peter Jackson (Tobacco Manufacturer) Ltd., now Peter Jackson Ltd., makers of du Maurier cigarettes which Gallaher has described as "the first filter tip cigarettes to become popular"; two related companies (International Tobacco Co. Ltd. and The National Tobacco Co. Ltd.) were acquired at the same time. All three companies had been owned by members of the Wix family (see paragraph 192), who in two cases (Peter Jackson and International) retained the export trade, forming new companies for the purpose; the third company (National) was not trading. By acquiring the home trade of Peter Jackson and International, Gallaher was enabled under the terms of the Martin Agreement to claim compensation although its own proportion of total sales had not fallen,

* But see paragraph 63 as regards Rothmans.

since the businesses acquired were in deficit. Probably as a result of these acquisitions Gallaher's receipts from the Martin Agreement pool exceeded its payments by £298,793 up to the end of 1939: from 1940 to 1945, however, it paid into the pool a total amount of £461,435. Meanwhile, in 1937 the company had acquired E. Robinson & Sons Ltd., parent company of J. A. Pattrieux Ltd., makers of Senior Service cigarettes; this brand, which had been introduced in 1925, was then enjoying considerable success in the Manchester area but was virtually unknown elsewhere and the owners lacked the financial resources to extend their trade to a national market. Gallaher has told us that at that time it did not itself possess "a cigarette brand of the standard type which appeared to have a favourable chance of being sold on a national scale to compete with the leading brands in the 'Senior Service' price category".

168. In 1947 Gallaher extended its interests into another new field by acquiring a group of companies (Associated Tobacco Manufacturers Ltd.) which included an old-established undertaking making cigars. In 1953, it acquired all the issued share capital of Cope Brothers & Co. Ltd., also trading under the name of Richard Lloyd & Sons, tobacco manufacturers, with five subsidiaries.* Gallaher has told us that for some years before 1953 the board and management of the company had "felt frustrated . . . because the basis of allocating Dollars for the purchase of American tobacco precluded them from meeting the demand for the Group's cigarette brands". By acquiring Cope Brothers' dollar quota Gallaher was able to increase supply of its own brands; in addition Cope Brothers "had a considerable tobacco business with a promising brand in 'Old Holborn'" and a range of products broadly complementary to the Gallaher range. In 1955 Gallaher acquired all the issued share capital of Benson & Hedges Ltd., principally, we are told, for its name "which is widely known and is associated with high quality products". Meanwhile, Gallaher had also acquired interests in a group of engineering companies, one of which subsequently manufactured tobacco machinery (see paragraph 292), and in leaf buying and processing subsidiaries (see paragraph 170).

169. Gallaher operates seven factories, at Manchester (where there are three, all of which make only cigarettes), at Lisnafillan, Northern Ireland (cigarettes, tobacco and cigars), Belfast (cigarettes, tobacco and snuff), London (tobacco only) and Cardiff (cigars only). Under its own name or under the names of its subsidiaries it markets 23 brands of cigarettes and 33 brands of tobacco.† We describe Gallaher's distribution arrangements in paragraph 211. Since 1947 it has operated a bonus scheme (see paragraph 254).

170. Except for the company's engineering interests, executive and administrative control over the activities of all subsidiaries is exercised from Gallaher's Head Office in London. All decisions regarding capital expenditure and policy matters generally are made by the board and implemented by Head Office staff either direct or through local management at the factories. Most materials are purchased centrally. The company maintains a small staff in America to

* Cope Brothers was registered in 1885. In 1902 the company purchased the business of Richard Lloyd, founded in 1785. Gallaher has told us that the two businesses were similar in character; "the alliance was a mutually protective measure in view of the formation at that time" of Imperial. In 1924 Cope Brothers had acquired the goodwill and other assets of H. C. Lloyd & Son Ltd. of Exeter, an undertaking founded by one of the two sons of the founder of Richard Lloyd.

† These figures include 15 Benson & Hedges brands of cigarettes and 3 Benson & Hedges brands of tobacco.

supervise and co-ordinate the company's purchases of leaf through dealers both in the United States and in Canada; it has its own leaf buying organisation in Africa, which includes a packing factory in Salisbury, Southern Rhodesia.*

171. In the years since 1929 Gallaher, as we have already shown (see paragraphs 64, 66, 83, 89 and 161), has consistently expanded its share of a growing market and it has been the only one of Imperial's competitors to do so. At the same time an increasing proportion of the company's production has been in cigarettes; in 1930 these represented only about 25 per cent. of the company's production but by 1959 the proportion was about 90 per cent. Figures for Gallaher's sales in the years since 1954 are given in paragraph 4. The steady increase in the company's sales is largely attributable to its two leading brands of cigarettes and more particularly to Senior Service. Up to 1959 filter tipped cigarettes formed a lower proportion of the cigarette output of Gallaher than of the other large manufacturers, but the company has since introduced the Nelson brand which, we are told, has been very successful. Imperial's records bear testimony to the intensity of competition from Gallaher in recent years, to the success of that company's leading brands (Senior Service, Park Drive, Condor Sliced and Old Holborn), and to the high quality of its products.

172. Imperial has told us that it acquired its interest in Gallaher in 1932 after it had received information that American Tobacco, which had acquired J. Wix in 1927, was contemplating obtaining control and that Wix had opened negotiations with Gallaher to this end.† On receiving this news Imperial approached Gallaher. Following discussion, the Chairman of Imperial wrote to the Chairman of Gallaher telling him that the Executive Committee of Imperial was prepared to recommend to the board "that this Company should acquire an investment interest in Gallahers by taking say 51 per cent. of the Gallaher ordinary shares and leaving the management of the business to go on undisturbed and unhampered, we using that interest in no way other than that appropriate to any large shareholder with such an interest". Imperial subsequently purchased 51 per cent. of the ordinary shares. Imperial still had this majority interest when the Report of the Cohen Committee on Company Law Amendment, published in 1945, recommended that holding companies should be required to produce consolidated accounts incorporating the results of all companies in which the holding company held a majority interest.‡ Imperial has told us that it considered that consolidation of Gallaher's financial results with its own would have been misleading since it exercised no control over that company. When, therefore, in June 1946 Gallaher made an issue of shares to shareholders, Imperial did not retain its full entitlement. Since July 1946 Imperial has held less than 50 per cent. of the equity in Gallaher and since 1956 its interest has amounted to 42½ per cent. of Gallaher's ordinary shares. The company remains the largest single holder of Gallaher's ordinary share capital. In 1955 it also acquired a small number of preference shares which it disposed of in 1959. Imperial's shares have throughout been registered in the names of nominees

* Oriental and Indian leaf is bought through the British-American Tobacco Co. Ltd. and British merchants. Small quantities of American leaf are also bought through British merchants.

† According to Gallaher its Chairman was asked by the Chairman of Imperial in November 1932 whether American Tobacco was negotiating to purchase the Gallaher business and replied that no negotiations had taken place but that a representative of J. Wix had seen over Gallaher's factory in Northern Ireland.

‡ The recommendation was subsequently implemented in the 1948 Companies Act.

and the existence of the interest has been treated by the company as a confidential matter. Imperial is not represented on the board of Gallaher and has never interfered with its policy except in so far as appears in the following paragraph.

173. Indirectly Imperial's interest in Gallaher has had an effect on that company's export trading arrangements. The 1902 agreement between Imperial, B.A.T. and others whereby Imperial transferred its export and overseas interests to B.A.T. (see paragraph 103) provided, *inter alia*, that B.A.T. should be entitled to purchase the export business of any company the control of which should in the future be acquired by Imperial. In 1932, therefore, when Imperial acquired a controlling interest in Gallaher, which at that time had virtually no export trade, Gallaher entered into an agreement with B.A.T. Under the agreement now current Gallaher undertakes not to engage in export business except through its Export Branch, which is managed by B.A.T. Similar arrangements applied to the export business of subsidiaries subsequently acquired by Gallaher. As a corollary to the agreement between Imperial and B.A.T., Imperial pays to B.A.T. that proportion of Gallaher's profit from the export trade appropriate to Imperial's holding in Gallaher.

(3) ARDATH TOBACCO CO. LTD.

174. The Ardath business was founded in 1895 and from about 1901 onwards traded as Ardath Tobacco Company; in 1912 the Ardath Tobacco Co. Ltd. was incorporated. In 1925 some 84 per cent. of production was exported.

175. B.A.T. has told us that in 1925 it had the opportunity of acquiring the whole of the capital of the Ardath company. Imperial has told us that the initiative for purchasing Ardath in 1926 came from B.A.T., which wished to acquire the company's export trade; as the result of the market-sharing arrangements of 1902 between the two companies (see paragraph 103), B.A.T. approached Imperial but Imperial cannot now trace from its files any other reasons which led it to acquire its share in Ardath. The two companies decided to purchase the Ardath company and formed a new holding company, Universal Tobacco Co. Ltd. (Universal), for that purpose. Since 1932 the whole of the ordinary capital of Universal has been registered in the name of B.A.T. which held, and holds, 50 per cent. of the shares on behalf of, and as nominee for Imperial.* Meanwhile, in 1926 the old Ardath company was wound up and a new company of the same name was incorporated. The new company had a nominal capital of £6 million divided into £3 million ordinary and £3 million preference shares each of £1, all the ordinary shares being issued and held by Universal. The £1,400,000 issued preference shares were held on the open market and in 1959 the largest single holder (643,000 shares) was Imperial's Pension Trust.

176. Under the 1925 arrangements Imperial and B.A.T. had equal interests in Ardath and Imperial received half the profits, including profits attributable to Ardath's export trade which formed the greater part of its business. Imperial controlled Ardath's home market trade without reference to B.A.T., and B.A.T. similarly controlled Ardath's export trade, except that the two companies exercised joint control over Ardath's trade in the United States. Ardath's general policy was determined by an Advisory Committee consisting of two

* Before 1932 Imperial's nominee was the then Chairman of Ardath.

representatives of Imperial, two of B.A.T. and one of Ardath. In 1947 Imperial and B.A.T. entered into an agreement which amended the original arrangements by providing that the two companies should share the Ardath ordinary dividend in proportions which reflected the contributions of the home and export trades to Ardath's total profits. The 1947 agreement further provided that Imperial should make a payment to Ardath if Ardath's profits from home trade fell below a specified figure and that similarly B.A.T. should make a payment if profits from export trade fell below a specified figure.

177. For practical purposes as far as Ardath's home trade is concerned the company was from 1925 to June 1960 in a position comparable with that of a branch of Imperial, although supervision was less close. The company had its own management and its own sales force and customers' accounts, but in many respects was bound to follow the same procedure as that laid down in Imperial's Handbook (see paragraph 117). As in the case of the branches Ardath had, for example, to submit for approval by Imperial's Executive Committee proposals for new brands or for changes in existing brands; changes in prices were agreed by Imperial and Ardath was normally expected to show the same gross margin of profit as that required of the branches for comparable brands. Ardath financed its own advertising but the level of advertising expenditure was agreed by Imperial. Ardath had its own price list: its terms to distributors, which were not identical with those offered by Imperial's branches, were agreed by the Executive Committee. On the other hand Ardath did not participate in Imperial's centralised arrangements for the purchase of leaf and other materials. Although Imperial's window dressers (see paragraph 233) included Ardath material in windows dressed by them, this material did not form part of the Imperial display but was treated on a par with that supplied by other manufacturers outside the Imperial group. From 1926 onwards Ardath operated its own bonus scheme the details of which were approved by the Executive Committee of Imperial (see paragraph 256).

178. In 1927 Ardath entered the coupon market. There were then four coupon-bearing cigarette brands on sale in the home market made by four manufacturers and sales of coupon brands accounted for about 4 per cent. of all cigarette sales. In the six years which followed before the signature of the Martin Agreement and the arrangements of the Tobacco Trade Association put an end to coupon trading, eighteen further coupon brands appeared and the estimated proportion of total sales represented by such brands rose to 22 per cent. in 1932 and 33 per cent. in 1933. Although the cost of Ardath's scheme was increased in 1930, the company's share of the coupon trade declined after that year, particularly after Imperial itself entered the field in November 1932. Ardath's share of the total home cigarette trade in these years was as follows:—

| Year | Per cent. | Year | Per cent. |
|------|-----------|------|-----------|
| 1928 | 1·4 | 1932 | 4·9 |
| 1929 | 3·2 | 1933 | 4·3 |
| 1930 | 6·2 | 1934 | 1·8 |
| 1931 | 5·6 | | |

Ardath was a party to the Martin Agreement and in the years 1934 to 1945 received compensation amounting to £3,611,752.

179. In 1952 and 1953 Ardath acquired the whole of the share capital of three United Kingdom tobacco manufacturers (John Wood & Son (Tobacco) Ltd., Charlesworth & Austin Ltd. and The Express Tobacco Co. Ltd.). The manufacturing and marketing of the products of one of the three was discontinued, but the cigarette brands of the other two continued to be made in Ardath factories. The pipe tobaccos of these two companies were marketed by Ardath, but made for the company by one of the Imperial branches. In 1959 Ardath had one factory and supplied on the home market fourteen brands of cigarettes and four brands of tobaccos, the greater part of the company's cigarette trade being in the class then selling at 20 for 4s. or more, or in filter tipped brands (see paragraph 2). In 1954 Ardath supplied about 1 per cent. of the total home trade in cigarettes and tobacco. After the relaxation of Government controls in that year the company's home trade declined steadily; the following table gives figures of sales by weight and value in each of the years 1954 to 1959:—

| Year | Quantity (lb.'000) | | | Value (£'000) | | |
|------------|--------------------|---------|-------|---------------|---------|-------|
| | Cigarettes | Tobacco | Total | Cigarettes | Tobacco | Total |
| 1954 | 2,324 | 31 | 2,355 | 8,023 | 95 | 8,118 |
| 1955 | 711 | 25 | 736 | 2,514 | 71 | 2,585 |
| 1956 | 383 | 20 | 403 | 1,432 | 60 | 1,492 |
| 1957 | 415 | 9 | 424 | 1,668 | 28 | 1,696 |
| 1958 | 402 | 7 | 409 | 1,607 | 25 | 1,632 |
| 1959 | 386 | 6 | 392 | 1,504 | 21 | 1,525 |

Figures produced in 1955 by Imperial's Chief Accountant for the Executive Committee showed that Ardath had made very little profit on its home trade in the years immediately before the war. In June 1953 it had been reported to the Ardath Advisory Committee that the addition of a third factory in the United Kingdom, concurrently with a reduction in output, had "resulted in an alarming increase in overheads". In 1955 and subsequently (see paragraphs 379 and 381) Ardath incurred losses on its home trade which Imperial was required to make good under the terms of the 1947 agreement (see paragraph 176).

180. Imperial's records show that in 1954 and 1955 the Executive Committee considered Ardath's position and discussed the level of Ardath's expenditure on advertising, the size of the company's sales force and the relation between goodwill on the home market and exports. In 1955 the opinion was expressed that it might be desirable to "retain Ardath in its present form for a year or two in case one or more" of Imperial's competitors took some action which Imperial "might have to counter in a manner which would be undesirable" for one of the branches to adopt; it was doubtful, however, whether Imperial would wish to retain "this form of insurance for long". A memorandum submitted to the Executive Committee in March 1955 by the Chief Accountant and the Solicitor, outlining two possible courses if the investment in Ardath continued to show a negative return, envisaged the possibility that the arrangement as then existing might continue in order to "arrange for the Ardath Company to fight back with coupon trading if such a form of competition should develop". In January 1956 the Executive Committee decided that Ardath should operate on a reduced selling and advertising budget and should "continue for the time being on the reduced basis".

181. Imperial's records also show that from the end of 1952 onwards Imperial had recognised that when Government controls were relaxed there might be some resumption of coupon trading and discussions on the subject had taken place within the T.T.A. In July 1955, one of the small manufacturers introduced a coupon brand of cigarettes and another did so during 1956 (see paragraph 93). In May 1956 Imperial set up an internal committee to consider "matters regarding coupon trading, competitions etc.". The committee took the view that Imperial would probably not want to take immediate action to counter coupon trading unless Gallaher introduced a coupon scheme, but the committee considered that if Imperial had to meet this type of competition it should first introduce competitions* in connection with the company's brands, which could if necessary be followed up by the introduction of coupons by Ardath. Representatives of the Wills and Player branches were opposed to the introduction of coupons in connection with any of their main brands. In September 1956 the T.T.A. was wound up (see paragraph 94). In October Ardath was given permission to make enquiries among manufacturers of gifts with a view to preparing a coupon scheme, but Imperial still inclined to the view that it should rely on competitions rather than on coupon schemes and the Chairman said he was "by no means yet convinced" that Imperial "would want the Ardath Company to 'bell the cat'"; by the end of the year plans for competitions were being prepared. In November 1956 one of the larger manufacturers (J. Wix) introduced a coupon scheme; another small company did so in December and Carreras followed suit in May 1957. In July 1957 Ardath also introduced coupons with two of its brands, but with little success.†

182. In 1960 the business of Ardath was again reorganised and manufacture at the company's remaining factory ceased at the end of June that year. In the same month, with the sanction of the High Court, all the issued preference shares were repaid at 21s. per £1 share. A new company, Ardath (U.K.) Ltd., a wholly owned subsidiary of Imperial, has been incorporated, is at present acting as manager of Ardath's home trade and will become concessionaire for the Ardath brands in the United Kingdom. Imperial and B.A.T. have agreed that on or about 31st December, 1960, they will terminate the agreements of 1925 and 1947 concerning the management of Ardath, and B.A.T. has agreed to buy Imperial's interest in Universal, with the practical effect that the Ardath Tobacco Co. Ltd. will become a wholly owned subsidiary of B.A.T.

183. The Ardath brands are now being manufactured by Imperial for the home market and by B.A.T. for overseas markets. Imperial has told us that all are at present on sale in the home market. Whether they will all continue to be sold in the future will be a matter for consideration by Ardath (U.K.) in the light of the profitability and sales of the individual brands. We describe arrangements recently made between Ardath (U.K.) and Godfrey Phillips in paragraph 185.

(4) GODFREY PHILLIPS LTD.

184. Godfrey Phillips, an old-established family business, was incorporated as a public company in 1908. Over the years, particularly in the 1920's, it has acquired a number of tobacco and cigarette manufacturing subsidiaries,

* Imperial had run similar competitions between 1930 and 1933 (see paragraph 63).

† For the results of other companies' coupon schemes see paragraph 96.

besides interests in materials, printing, box-making, publishing and distribution.* The company manufactures cigars as well as cigarettes and virtually all types of pipe tobacco. The company has emphasised that although by weight of tobacco used and by value of sales its cigarette trade appears to have been the more important part of its business, its position *vis-à-vis* the rest of the trade has been much stronger in pipe tobaccos and it has had a much higher proportion of the country's pipe tobacco trade than of its cigarette trade. In 1928 Godfrey Phillips had the largest share of the United Kingdom cigarette market after Imperial and Carreras. It suffered a set-back in 1930, perhaps due to more successful coupon trading by other manufacturers, since when, with temporary rallies, its share appears to have declined progressively. It was a party to the Martin Agreement and received compensation under that agreement totalling £1,530,703. The company's trade has been decreasing since 1952 and from 1953 to 1956 it incurred losses on its home trade in each year.†

185. In September 1960, Godfrey Phillips entered into an agreement‡ with Ardath (U.K.), a wholly owned subsidiary of Imperial (see paragraph 182), whereby it appointed Ardath (U.K.) sole concessionaire to manage and control the manufacture, sale and distribution for the home market of most of its brands of cigarettes and tobacco on a royalty basis. The agreement, which comes into force with effect from 1st February, 1961, is for 50 years.§ It covers the existing brands of Godfrey Phillips and five subsidiaries, but does not include the brands of two other subsidiaries (Abdulla & Co. Ltd. and Pritchard & Burton Ltd.);|| the brands covered by the agreement have accounted for about five-sixths of the total home trade of the Godfrey Phillips group in recent years. Ardath (U.K.) is to make "such arrangements as it thinks fit for the manufacture and marketing" of the brands concerned and is to have the use of trade names, the benefit of trade marks, and control of advertising. In view of Ardath (U.K.)'s interest in brands other than those covered by the present arrangement, the company is "to be under no obligation as a result of the Agreement to take any action which it regards as inimical to its interests or to refrain from taking any action which may be to its advantage": in particular Ardath (U.K.) is to be entitled to withdraw from the home market any Godfrey Phillips group brands covered by the agreement. If it does so, Godfrey Phillips is to be entitled to arrange for "such manufacture and distribution as shall be required to maintain the validity of the Trade Marks concerned but not further or otherwise". Godfrey Phillips is to supply "all requisite recipes and specifications" and there is provision for whatever manufacturer is to make the brands for Ardath (U.K.) to take over such stocks of materials as may be required.

186. Godfrey Phillips has told us that by the early part of 1960 it had come to the conclusion that it must either close down its main factory altogether or

* As from 1st November, 1960, the company has disposed of Thomson & Porteous Ltd., its principal interest in the distributive trade (see footnote † on page 53).

† See paragraph 379. We have not examined the company's results for years subsequent to 1956.

‡ Heads of Agreement were signed on 2nd September, 1960.

§ But terminable by either party after 20 years, on six months' notice, if the royalty, calculated in accordance with given rates, does not amount to a specified minimum total.

|| The trade of a branch of one of the five subsidiaries (Muratti) is, however, excluded from the arrangements. The agreement also covers the home market rights to any brands which members of the Godfrey Phillips group (other than Abdulla and Pritchard & Burton) may subsequently introduce in export markets, and any new brands which Ardath (U.K.) may introduce in the name of one of the companies in the group.

divest itself of its interest in the home market. Sales of the company's main brand of cigarettes, De Reszke Filter, had been falling and its share of the growing filter tipped trade in the United Kingdom had decreased from nearly 10 per cent. in 1955 to about 3 per cent. in 1960. Godfrey Phillips' larger competitors were concentrating their advertising efforts on this section of the market. The company was anxious to retain its export trade, but there seemed little hope of building up a successful brand in the home market without advertising it uneconomically for several years and expending "a far greater sum than could economically be justified". After exploratory negotiations with two of its other competitors, Godfrey Phillips decided to approach Imperial. Godfrey Phillips suggested a royalty agreement with specified nominal minimum annual payments because it was anxious that Imperial (through Ardath (U.K.)) should press the sales of its brands and realised that if the profit margin on these brands were to compare unfavourably with that on Ardath (U.K.)'s own brands the incentive to do so would be lacking.

187. Imperial has told us that after "very careful consideration" it came to the conclusion that the proposition put forward by Godfrey Phillips "could well be of real and substantial benefit" to Ardath (U.K.). In the first place Ardath (U.K.) could handle the additional volume of trade (amounting to some 30 million cigarettes and 50,000 lb. of tobacco a month) without appreciably increasing its overhead costs. Secondly, Ardath (U.K.) would have access to Godfrey Phillips' direct account customers; after making due allowance for duplication, this should increase the number of its direct contacts to the company's advantage. The higher quantity allowances which would result from combining the trade of Ardath (U.K.) with that of Godfrey Phillips should prove attractive to distributors, many of whom at present buy only small quantities from both companies. Finally, Imperial considered that its branches could undertake the manufacture of the Godfrey Phillips brands with a comparatively small increase in overhead costs, thus effecting a saving as compared with the manufacturing costs incurred by Godfrey Phillips.

188. Imperial estimates that the arrangements entered into in September 1960 will represent to the group (i.e. Imperial and Ardath (U.K.)) a net advantage of "something like £100,000 a year". Provisionally most, if not all, of Godfrey Phillips' cigarette brands will be made by the Churchman branch and most of its tobaccos by the Ogden branch: the existing manufacturing capacity of both is sufficient for the purpose.

(5) CARRERAS LTD. AND ROTHMANS LTD.

189. As tobacco and cigar merchants the antecedents of Carreras go back to 1754. The present company was formed in 1903, when it became associated with members of the Baron family. The first member of this family concerned (Bernhard Baron) had come to England from America in 1895 and was the proprietor of patents for one of the earliest cigarette making machines; these he proceeded to build in this country. An associated company of Carreras started manufacturing cigarettes in 1904 and on reorganisation Carreras itself took over this interest in 1912. Over the years Carreras has expanded its interests, particularly overseas. In 1919 the Baron Machinery Co. Ltd. was incorporated as a subsidiary to market Baron cigarette making machines (see also paragraph 282). Although primarily a cigarette manufacturer, Carreras

had from the beginning a small interest in tobacco manufacture. This it expanded in 1930 when it acquired John Sinclair & Co. Ltd. (see paragraphs 62 and 153) and again in 1953 when it acquired interests in two old-established and well-known tobacco manufacturing businesses, both of which had found it impossible to continue trading under the market conditions then prevailing.*

190. In early years Carreras' cigarette trade appears to have prospered. As mentioned in paragraph 62 it was one of the first to introduce coupon trading in the early 1920's, and its Craven "A" brand achieved considerable success between the wars. Figures prepared by Imperial show that in 1933 Carreras supplied over 13½ per cent. of the total cigarette market in the United Kingdom and after Imperial (with over 65 per cent.) was the largest supplier. When the Martin Agreement came into operation the following year, however, Carreras' sales fell sharply. During the life of the agreement the company received compensation to a total of £3,954,318, and although for many years it remained the second largest manufacturer of tobacco goods its share of the cigarette market has not since exceeded 9 per cent. and has usually been less. With the relaxation of Government controls in 1954 the company's trade dropped heavily. In 1957 it re-introduced coupon schemes with two of its brands; the schemes met with little success and have since been withdrawn.

191. In November 1958 control of Carreras passed to the Rembrandt Tobacco Corporation (S.A.) Ltd., an organisation with considerable resources operating in a number of Commonwealth countries. Carreras now markets 6 brands of cigarettes and 23 brands of tobacco.† Rembrandt's other United Kingdom subsidiary, Rothmans Ltd., was acquired in 1954 and although it was then a small manufacturer supplying only a negligible proportion of the total home market, it has recently achieved considerable success with its king size filter tipped brands (see paragraph 2). In 1959 Carreras and Rothmans formed a joint marketing organisation, the Carreras Rothmans Marketing Division Ltd. It has recently been agreed in principle that Carreras should acquire Rothmans' interests in the home market and in certain export markets.‡ Before passing under the control of Rembrandt, Carreras had begun to enlarge and adapt a modern factory which it had bought at Basildon. This has now been equipped with modern machinery. Although Carreras' and Rothmans' combined share of the home trade was still in 1959 little more than 3 per cent. this group, backed as it is by Rembrandt's resources, may prove a more serious competitor in future.

(6) J. WIX & SONS LTD.

192. The business was founded in 1901 by Mr. Julius Wix. In 1922 it was incorporated as a limited company and in 1927 the whole of the share capital was sold to the American Tobacco Company of New York, the present owner. Mr. Julius Wix retired and in 1928 his two sons also left the company.§

* Carreras acquired certain of the assets of R. & J. Hill Ltd. of London and the entire share capital of Murray, Sons & Co. Ltd. of Belfast.

† The number of brands was greater before Rembrandt acquired control.

‡ For this purpose it is proposed to form a new Rothmans company the whole issued capital of which would be acquired by Carreras on a share exchange basis.

§ The sons were at an early date interested in the possibilities of filter tipped cigarettes. After leaving J. Wix they set up their own business and incorporated several companies, including the Peter Jackson group of companies; at one time they also owned Benson & Hedges. One of the brothers, Mr. Michael Wix, was a director of Carreras from 1955 to 1958.

193. In early years J. Wix developed Kensitas cigarettes, and this has been a well-known brand for many years. In 1926 J. Wix introduced a coupon trading scheme and in 1930 it extended coupon trading to the Kensitas brand, apparently with successful results; Imperial has estimated that J. Wix's share of the United Kingdom cigarette market rose from 2·3 per cent. by quantity in 1930 to 6·3 per cent. in 1931. In 1934, after the conclusion of the Martin Agreement, the company's share fell and remained at a general level of 1½ to 2½ per cent. of the total cigarette market until 1954. During the life of the Martin Agreement J. Wix received a total of £4,563,905 in compensation. J. Wix was at this time the fifth largest supplier of cigarettes. The company's trade suffered a severe set-back when Government controls were relaxed. Towards the end of 1956 it successfully re-introduced a coupon trading scheme in connection with Kensitas. This appears to be the only post-war coupon scheme for cigarettes which has been successful; the company has more than recovered the share of the market which it had in 1954 (see paragraph 4). It has told us that it regards its gift coupon scheme as merely a method of advertising, the great advantage of which is that the cost varies directly with the turnover. The company says that in present conditions it can by this method attract some of the demand in spite of the advertising power of the larger manufacturers, while offering consumers "the utmost value for the money that they spend on our products". The company now markets two brands of cigarettes; it does not manufacture or sell tobacco. The fact that the company is controlled by American Tobacco does not appear to have affected materially the strength of the competition which J. Wix has offered over the years.

CHAPTER 5. DISTRIBUTION

(1) THE DISTRIBUTORS

194. As we have explained in paragraph 24, in the tobacco industry there is no clear distinction between the wholesale and retail sections of the distributive trade. The number of dealers' licences issued in 1958-59 was about 422,000. The Wholesale Tobacco Trade Association has estimated that there are about 14,000 tobacco traders who undertake some wholesaling but that only about 1,500 of these are exclusively or mainly wholesalers, the rest being retailers with small wholesale interests. Thus the total number of retail outlets is over 400,000, though the number of retail traders concerned is no doubt somewhat less, since a dealer's licence is required for each point of sale.

195. Tobacco goods still form the bulk of the trade of many of the larger wholesalers, though most of them tend increasingly to deal in other goods as well, such as fancy goods, confectionery, smokers' requisites and stationery. Among the other wholesalers are concerns such as breweries which buy for resale to their own retail outlets. As regards retailers, the type of specialist tobacconist who formerly stocked only tobacco goods also now generally sells a range of other products as well. These specialist retailers include a number of chain tobacconists, some of them confined to a particular town or district, others covering a large part of the British Isles. There are many other types of retail