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Williamson Oil Co. v. Philip Morris

Name

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Course

Instructor

Date

Parties

Williams Oil Company, Inc. and others equally located are the litigants in the case and the Philip Morris Companies, Inc. are the defendant.

Facts

The United States tobacco industry is an oligopoly; therefore, during the 20th century, the primary tobacco companies were involved in cigarette price reduction. This reduction in prices was facilitated by price competition because while Philip Morris companies were the first to decrease their prices, other companies also followed the direction and reduced their prices (Findlaw, n.d). Nevertheless, the decrease in prices resulted in a significant decrease in revenues. Although before the 20th century there were fewer price changes, consumers did not change the type of brand and maintain their loyalty to the brand hence not altering the market share. However, during the price fluctuations, many consumers that were premium smokers changed to nonpremium products. Therefore, in 1993, the nonpremium products had attained more than forty percent of the American market.

Moreover, because of the increased decrease in profits, Philip Morris companies decided to progressively raise the prices to recover the incredible financial losses they felt due to the price competition. The defendant's decision on Marlboro Friday fruitfully made other companies aware of price reduction to get market share would not be used again and it is only when the energies are left and the premium price opening is reduced that the price can be increased. Philip Morris Inc. started to raise the price of cigarettes and other companies also increased their prices (Findlaw, n.d). Similarly, this increase in prices was done for some time and in the late 1990s, the companies were stable with one price surge every time. Nevertheless, Williamson Oil

company, together with other wholesalers, decide to sue the cigarette companies for conspiring in the significant rise of prices.

Procedure

The lower court decided to give the manufacturing companies a sign for the instant verdict. Therefore, the claim was cleared. Philip Morris Companies Inc. succeeded when the litigant was unable to present any evidence of the conspiracy in price setting, resulting in economic impacts to the wholesalers. Similarly, the litigant was the one appealing the court verdict.

Issue

Whether the cigarette manufacturers united to increase their product prices and evidence to support the argument?

One of the laws that can be applied in the case is collusion law. Yusupova (2017) stated that collusion happens when two individuals or firms or firms agree to cheat or misinform another. Therefore, the litigant argues that the defendant united together with other manufacturers secretly to have an unfair advantage of increasing cigarette prices. Another law to be applied is price-fixing laws which the defendant has been using to compete with their competitors. Levenstein & Suslow (2016) claimed that price-fixing is a contract between competitors to either increase or decrease prices based on the competition. Therefore, the decrease in prices due to competition wars among firms was violating the price-fixing laws.

Holding

The court of appeals declared that the district court should provide an immediate ruling for the respondent. The verdict was dismissed and Philip Morris Inc. won the case.

Reasoning

The reasoning behind the decision was based on the oligopoly structure of the cigarette companies and the evidence presented. Therefore, the judge reasoned by considering the existing facts and found that the defendant did not act based on collusion or price-fixing but oligopoly structure which causes conscious parallelism.

In summation, the Williamson Oil Co. v. Philip Morris case indicates the challenges the court faces when examining if companies are uniting to change the increased prices. However, manufacturing companies did not combine in increasing prices in this situation, but it was due to conscious parallelism brought by oligopoly structure.

References

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