

Analysis of Proposed Consent Order to Aid Public Comment
In the Matter of Sigma Corporation, File No. 101-0080

The Federal Trade Commission has accepted, subject to final approval, an agreement containing a proposed consent order (“Agreement”) from Sigma Corporation (“Sigma”). The Agreement seeks to resolve charges that Sigma violated Section 5 of the Federal Trade Commission Act, 15 U.S.C. 45, by engaging in a variety of collusive and exclusionary acts and practices in the market for ductile iron pipe fittings (“DIPF”).

The Commission anticipates that the competitive issues described in the complaint will be resolved by accepting the proposed order, subject to final approval, contained in the Agreement. The Agreement has been placed on the public record for 30 days for receipt of comments from interested members of the public. Comments received during this period will become part of the public record. After 30 days, the Commission will again review the Agreement and any comments received, and will decide whether it should withdraw from the Agreement or make final the proposed order contained in the Agreement.

The purpose of this Analysis to Aid Public Comment is to invite and facilitate public comment concerning the proposed order. It is not intended to constitute an official interpretation of the Agreement and proposed order or in any way to modify its terms.

The proposed order is for settlement purposes only and does not constitute an admission by Sigma that it violated the law or that the facts alleged in the complaint, other than jurisdictional facts, are true.

I. The Complaint

The following allegations are taken from the complaint and publicly available information.

A. Background

DIPF are used in municipal water distribution systems to change pipe diameter or pipeline direction. DIPF suppliers distribute these products through wholesale distributors, known as waterworks distributors, which specialize in distributing products for water infrastructure projects. The end users of DIPF are typically municipal and regional water authorities.

Both imported and domestically produced DIPF are commercially available. Sigma and its largest competitors in the DIPF market, McWane, Inc. (“McWane”) and Star Pipe Products Ltd. (“Star”), all sell imported DIPF. McWane was the only domestic producer of a full line of small and medium-sized DIPF until Star’s entry into domestic production in 2009.

There are no widely available substitutes for DIPF. Some projects require that only domestically produced DIPF be used. Domestically produced DIPF sold for use in these projects typically command higher prices than comparable imported DIPF.

DIPF prices are based off of published list prices and discounts, with customers negotiating additional discounts off of those list prices and discounts on a transaction-by-transaction basis. DIPF suppliers also offer volume rebates.

B. Challenged Conduct

Between January 2008 and January 2009, Sigma allegedly conspired with McWane and Star to increase the prices at which imported DIPF were sold in the United States. In furtherance of the conspiracy, and at the request of McWane, Sigma changed its business methods to make it easier to coordinate price levels, first by limiting the discretion of regional sales personnel to offer price discounts, and later by exchanging information documenting the volume of its monthly sales, along with McWane and Star, through an entity known as the Ductile Iron Fittings Research Association (“DIFRA”).

After the collapse of the DIFRA information exchange in early 2009, Sigma attempted to revive the conspiracy by convincing McWane and Star to raise their prices and to resume the exchange of sales data through DIFRA. McWane and Star rejected Sigma’s invitation to collude.

The collapse of DIFRA coincided with the enactment of The American Recovery and Reinvestment Act of 2009 (“ARRA”) in February 2009. In the ARRA, the United States Congress allocated more than \$6 billion to water infrastructure projects, but included a provision requiring the use of domestically produced materials in those projects (the “Buy American” requirement). At the time the ARRA was passed, McWane was the sole supplier of a full line of domestic DIPF in the most commonly used size ranges, and possessed monopoly power in that market.

In response to the passage of the ARRA and its Buy American provision, Sigma, Star and others attempted to enter the domestically produced DIPF market in competition with McWane. Rather than compete with one another in the domestic DIPF market, Sigma and McWane executed a Master Distributor Agreement (“MDA”), whereby Sigma was appointed as a distributor of McWane’s domestically produced DIPF. Through the MDA, Sigma accepted compensation from McWane in exchange for abandoning its planned entry into the domestic DIPF market. Sigma also agreed to adopt exclusive dealing policies similar to those adopted by McWane, in furtherance of a conspiracy with McWane to exclude Star and to monopolize the domestic DIPF market.

The complaint alleges that Sigma had no legitimate business justification for this course of conduct, and that Sigma’s collusive and exclusionary conduct has caused higher prices for both imported and domestically produced DIPF.

II. Legal Analysis

We analyze first the various agreements allegedly reached by Sigma with its competitors to limit competition relating to imported DIPF, and then address Sigma's participation, along with McWane, in the alleged monopolization of the domestic DIPF market.

A. Sigma's Involvement in the 2008 Price Fixing Conspiracy

The January and June 2008 price restraints among Sigma, McWane and Star alleged in the complaint are the sort of naked restraints on competition that are *per se* unlawful.¹ The June 2008 agreement, which was allegedly reached after a public invitation to collude by McWane, illustrates how price fixing agreements may be reached in public. Here, McWane's invitation to collude was conveyed in a letter sent to waterworks distributors, the common customers of McWane, Sigma and Star. McWane's letter contained a section that was meaningless to waterworks distributors, but was intended to inform Sigma and Star of the terms on which McWane desired to fix prices.²

The DIFRA information exchange was also illegal. The complaint alleges that the DIFRA information exchange played a critical role in the 2008 price fixing conspiracy, first as the *quid pro quo* for a price increase by McWane in June 2008, and then by enabling Sigma, McWane and Star to monitor each others' adherence to the collusive arrangement through the second half of 2008.³

¹ FEDERAL TRADE COMMISSION & UNITED STATES DEPARTMENT OF JUSTICE, ANTITRUST GUIDELINES FOR COLLABORATION AMONG COMPETITORS ("Competitor Collaboration Guidelines") § 1.2 (2000); *In re North Texas Specialty Physicians*, 140 F.T.C. 715, 729 (2005) ("We do not believe that the *per se* condemnation of naked restraints has been affected by anything said either in *California Dental* or *Polygram*").

² Because McWane's communication informed its rivals of the terms of price coordination desired by McWane without containing any information for customers, this communication had no legitimate business justification. See *In re Petroleum Products Antitrust Litig.*, 906 F.2d 432, 448 (9th Cir. 1990) (public communications may form the basis of an agreement on price levels when "the public dissemination of such information served little purpose other than to facilitate interdependent or collusive price coordination").

³ The Commission articulated a safe harbor for exchanges of price and cost information in Statement 6 of the 1996 Health Care Guidelines. See DEP'T OF JUSTICE & FEDERAL TRADE COMM'N, STATEMENTS OF ANTITRUST ENFORCEMENT POLICY IN HEALTH CARE, STATEMENT 6: ENFORCEMENT POLICY ON PROVIDER PARTICIPATION IN EXCHANGES OF PRICE AND COST INFORMATION (1996). The DIFRA information exchange failed to qualify for the safety zone of the Health Care Guidelines for several reasons. Although the DIFRA information exchange was managed by a third party, the information exchanged was insufficiently historical, the participants in the exchange too few, and their individual market shares too large to qualify for the permissive treatment contemplated by the Health Care Guidelines. While failing to qualify for the safety zone of the Health Care Guidelines is not in itself a violation of Section 5, firms that wish to minimize the risk of antitrust scrutiny should consider structuring their collaborations in accordance with the criteria of the safety zone.

B. Sigma's 2009 Invitation to Collude

The complaint includes allegations of a stand-alone Section 5 violation, namely that Sigma invited McWane and Star to collude with Sigma to increase DIPF prices in early 2009.⁴ The term “invitation to collude” describes an improper communication from a firm to an actual or potential competitor that the firm is ready and willing to coordinate on price or output. Such invitations to collude impose a significant risk of anticompetitive harm to consumers, and as such, violate Section 5 of the FTC Act absent a legitimate business justification.

C. Sigma's Involvement in a 2009 Conspiracy with McWane to Eliminate Competition in the Domestic DIPF Market

The complaint alleges that, after the passage of the ARRA, Sigma prepared to enter the domestic DIPF market in competition with McWane. However, McWane wanted to avoid this competition, so McWane and Sigma agreed that Sigma would participate in the domestic DIPF market only as a distributor of McWane's product. Through this arrangement, McWane shared a portion of its monopoly profits in the domestic DIPF market with Sigma in exchange for Sigma's commitment to abandon its plans to enter that market in competition with McWane. Such agreements are presumptively unlawful.⁵

D. McWane and Sigma Conspired to Monopolize the Domestic DIPF Market

The elements of a conspiracy to monopolize are: (1) the existence of a combination or conspiracy; (2) an overt act in furtherance of the conspiracy; and (3) a specific intent to monopolize.⁶ Here, the complaint alleges that through their MDA arrangement, McWane and Sigma agreed to limit competition between themselves in the domestic DIPF market, and to exclude their rivals in that market, including Star, by the adoption of duplicate exclusive dealing policies, and did so with the common and specific intent to maintain and share monopoly profits in the domestic DIPF market.

⁴ *In re U-Haul International, Inc.*, F.T.C. File No. 081-0157, 2010 FTC LEXIS 61, *6 (July 14, 2010); *In re Valassis Communications, Inc.*, F.T.C. File No. 051-008, 2006 FTC LEXIS 25, *4-7 (April 19, 2006); *In re MacDermid, Inc.*, F.T.C. File No. 991-0167, 1999 FTC LEXIS 191, *10 (Feb. 4, 2000); *In re Stone Container Corp.*, 125 F.T.C. 853 (1998); *In re Precision Moulding Co.*, 122 F.T.C. 104 (1996); *In re YKK (USA) Inc.*, 116 F.T.C. 628 (1993); *In re A.E. Clevite, Inc.*, 116 F.T.C. 389 (1993); *In re Quality Trailer Products Corp.*, 115 F.T.C. 944 (1992). In addition, an invitation to collude may violate Section 2 of the Sherman Act as an act of attempted monopolization, and may also violate federal wire and mail fraud statutes. *See United States v. American Airlines*, 743 F.2d 1114 (5th Cir. 1984); *United States v. Ames Sintering Co.*, 927 F.2d 232 (6th Cir. 1990).

⁵ *E.g., Palmer v. BRG of Georgia, Inc.*, 498 U.S. 46, 49-50 (1990); *United States v. Masonite Corp.*, 316 U.S. 265, 281 (1942); *In re SKF Industries, Inc.*, 94 F.T.C. 6, 97-104 (1979).

⁶ *See Volvo N. Am. Corp. v. Men's Int'l Prof'l Tennis Council*, 857 F.2d 55, 74 (2d Cir. 1988).

III. The Proposed Order

The proposed order is designed to remedy the unlawful conduct charged against Sigma in the complaint and to prevent the recurrence of such conduct.

Paragraph II.A of the proposed order prohibits Sigma from participating in or maintaining any combination or conspiracy between any competitors to fix, raise or stabilize the prices at which DIPF are sold in the United States, or to allocate or divide markets, customers, or business opportunities.

Paragraph II.B of the proposed order prohibits Sigma from soliciting or inviting any competitor to participate in any of the actions prohibited in Paragraphs II.A.

Paragraph II.C of the proposed order prohibits Sigma from participating in or facilitating any agreement between competitors to exchange “Competitively Sensitive Information” (“CSI”), defined as certain types of information related to the cost, price, output or customers of or for DIPF. Paragraph II.D of the proposed order prohibits Sigma from unilaterally disclosing CSI to a competitor, except as part of the negotiation of a joint venture, license or acquisition, or in certain other specified circumstances. Paragraph II.E of the proposed order prohibits Sigma from attempting to engage in any of the activities prohibited by Paragraphs II.A, II.B, II.C, or II.D.

The prohibitions on Sigma’s communication of CSI with competitors contained in Paragraphs II.C and II.D of the proposed order are subject to a proviso that permits Sigma to communicate CSI to its competitors under certain circumstances. Under the proposed order, Sigma may participate in an information exchange with its competitors in the DIPF market provided that the information exchange is structured in such a way as to minimize the risk that it will facilitate collusion among the Sigma and its competitors. Specifically, the proposed order requires any exchange of CSI to occur no more than twice yearly, and to involve the exchange of aggregated information more than six months old. In addition, the aggregated information that is exchanged must be made publicly available, which increases the likelihood that an information exchange involving Sigma will simultaneously benefit consumers. The proposed order also prohibits Sigma’s participation in an exchange of CSI involving price, cost or total unit cost of or for DIPF when the individual or collective market shares of the competitors seeking to participate in an information exchange exceed specified thresholds. The rationale for this provision is that in a highly concentrated market the risk that the information exchange may facilitate collusion is high. Due to the highly concentrated state of the DIPF market as currently structured, an information exchange involving Sigma and relating to price, output or total unit cost of or for DIPF is unlikely to reoccur in the foreseeable future.

The proposed order has a term of 20 years.