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Testimony of Jodi Radke, Regional Advocacy Director, Campaign for Tobacco-Free Kids

SB 2281
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On behalf of the Campaign for Tobacco-Free Kids, I am submitting this written testimony to the House Finance and Taxation Committee regarding SB 2281.

The bill proposes to increase the tax on cigarettes by 25 cents per pack, tax cigars at 32% of the wholesale price, implement a tax on e-cigarettes and nicotine vaping products, and dedicate a portion of the new funds to local public health and organizations providing 988 crisis hotline services.

While we support increasing the tax on all commercial tobacco products, closing the tax loophole on e-cigarettes, and dedicating revenue to cessation and prevention services, we have concerns with the cigarette tax increase amount proposed in this bill.

Research shows that cigarette tax increases must be large enough to significantly impact the price of cigarettes to motivate people to quit and deter youth from initiating tobacco use. At only 25 cents per pack, the proposed cigarette tax increase will not generate public health gains.

As an alternative, we support a cigarette tax of \$1.00 per pack or higher. North Dakota has a tremendous opportunity to reduce tobacco use and dramatically improve health, while at the same time reducing health care costs, making our workforce healthier and more productive, and raising revenue for vital programs here in North Dakota.

At only 44 cents per pack, North Dakota's cigarette tax hasn't been raised since 1993 and ranks near dead last among all states – 49th in the country – and much lower than the average state cigarette tax of \$1.97 per pack. During that time, the price of cigarettes in North Dakota has increased by 310% due to company price increases and inflation, while the tax has remained the same: back in 1993, the 44-cent tax was 24% of the retail price (\$1.80), but in 2023 (most recent available), the current tax only makes up 6% of the retail price (\$7.395).¹

Since North Dakota's last cigarette tax increase over 30 years ago, most states – 48 and DC – have increased their cigarette taxes, with 39 states and DC increasing their cigarette tax multiple times since then. We are being left behind as other states modernize their tobacco taxes to address the array of new tobacco and nicotine products that directly target our kids.

A comprehensive approach to tobacco prevention - including regular and significant increases on cigarettes and taxing all tobacco products at an equivalent rate - is a win-win for North Dakota. It's a win for health because it will reduce tobacco use and its devastating health effects. It's also a win for the state economy because it will lower health care costs through reductions in tobacco use.

Health WIN

Despite declines in tobacco use over the years, tobacco use still exacts a heavy toll on North Dakota today. Tobacco use takes the life of 1,000 of your fellow North Dakotans – your mothers, fathers, brothers, sisters, friends, and other loved ones – every year.² This horrible toll will continue unless we act aggressively. Without action, many kids in North Dakota will become regular daily smokers and are risking a lifetime of associated health problems and premature death.³

Closing loopholes in the tax on other tobacco products will further drive down tobacco use, particularly among the trendy products that are attracting our kids. When tobacco product prices go up significantly, tobacco use goes down, especially among kids. The science could not be clearer. Based on over 100 studies, experts have concluded that raising tobacco taxes is one of the most effective measures we can take to reduce smoking.⁴ The 2014 Surgeon General's Report, *The Health Consequences of Smoking—50 Years of Progress*, found that "Raising prices on cigarettes is one of the most effective tobacco control interventions."⁵ In addition, Wall Street tobacco analysts and even the tobacco companies agree with the National Cancer Institute, the CDC, the Institute of Medicine of the National Academy of Sciences and the World Bank in finding that raising tobacco prices reduces tobacco use.⁶

Now there aren't too many things that health advocates and the tobacco companies agree on, but this is one. And that's why health groups like mine, along with the American Cancer Society, the American Heart Association, the American Lung Association, and many others, support the tobacco tax increase and why the tobacco companies oppose it.

Small tax increases of much less than a dollar per pack aren't large enough to make an impact on health because tobacco companies spend billions of dollars each year to nullify such small increases with price discounts and other promotions.⁷ For instance, after Louisiana's 50-cent cigarette tax increase in 2015, cigarettes were being sold in that state with 50-cent coupons attached right on the packs.

It's also important to adjust the tax on other tobacco products when the cigarette tax is raised to make these addictive products less affordable by kids. Nowadays there's a huge array of candy-flavored nicotine, like e-cigarettes and nicotine pouches, that are fueling North Dakota's youth nicotine and tobacco problem. Keeping prices on these products high will keep them away from our kids. It's time for North Dakota to close that loophole and tax all tobacco products.

Some people may argue that we need to keep prices on certain products lower than others, but the truth is that the data aren't out there to show how much less harmful certain products might be compared to others. But what we do know is that any form of nicotine is bad for our kids – it's highly addictive, can harm adolescent brain development, and affect memory and learning. We have a shared responsibility to keep these dangerous and addictive products away from children. We should make sure that the prices of all tobacco products – through a tax increase – are high enough to keep them out of kids' hands.

These tremendous gains in health from a tax increase will be further enhanced if North Dakota dedicates some portion of the new revenues to tobacco prevention and cessation efforts. The latest Surgeon General's Report noted, "A cigarette tax increase may have the greatest impact on reducing tobacco use when the tax increase is large and combined with comprehensive cessation support."⁸ States that have invested in comprehensive tobacco prevention and cessation programs have reduced tobacco use at rates far greater than the rest of the country, and these declines are in addition to those caused by tobacco price increases.

Economic WIN

The resulting reductions in tobacco use will benefit North Dakota's economy by reducing health care costs and raising revenue.

Tobacco-related diseases amount to \$379 million in direct health care costs in North Dakota each year, much of it borne by taxpayers.⁹ Whether they smoke or not, each household in the state pays \$910 per year to cover these tobacco-related health care costs. Reducing tobacco use through a significant tobacco tax increase will have a considerable impact on decreasing the heavy economic toll of tobacco in this state.

In addition, reducing tobacco use among North Dakotans means a healthier work force. In North Dakota, productivity losses from smoking-caused premature death or illnesses that impact the ability to work (i.e., absenteeism, non-productivity at work, and inability to work due to disability) amounts to over \$715 million per year.¹⁰ Businesses considering starting or expanding here are looking for a healthy workforce to keep health care costs low, so tobacco use is an economic development issue as well.

Opposition Arguments

As you debate this issue, you will hear a lot of talk about cigarette smuggling, or how smokers will avoid the new tax through cross-border sales, which opponents argue will lead to lost business, higher unemployment, and substantial amounts of new revenue for the states bordering North Dakota. Of course, these claims are overblown.

Cross-Border Sales. We do not pretend that tax avoidance is non-existent. Indeed, there will be some who try to avoid paying the increased tax. But while some of this will occur, tax avoidance will be nominal, short-lived for most, and will not come anywhere near offsetting the tremendous benefits of the tobacco tax increase.

The tobacco industry and its allies will no doubt be pushing this message to oppose this tax increase. For instance, the Mackinac Center for Public Policy and the Tax Foundation has issued annual reports claiming to quantify the level of illegal cigarette sales across state borders. There are many reasons to be skeptical of these claims. Both groups have a long history of receiving funding from tobacco companies such as Altria (the makers of Marlboro cigarettes), so it's no surprise that they would release something that reflects the position of their funders. In fact, the National Research Council and Institute of Medicine comprehensively reviewed the evidence on tobacco smuggling in the U.S. and found that "industry-sponsored estimates of the size of the illicit market tend to be inflated. More generally, concerns have been raised about the quality and transparency of industry-funded research on the illicit tobacco trade."¹¹

When you hear claims of smuggling, tax evasion and potential for lost revenues, look at the dozens of tax increases over the years and the data showing how much revenue the state received before and after the cigarette tax increases. Time and time again you will see that the state that raises its tobacco tax does better than a neighboring state that does not.

In the 12 months following its 1993 cigarette tax increase, North Dakota's cigarette tax revenue increased by 42.5 percent compared to the 12 months before the increase. Meanwhile, revenue decreased in Montana and increased by small amounts in South Dakota (\$889,000) and Minnesota (\$4,000) during that period.¹²

This has happened over and over again with other states. After South Dakota's \$1.00 per pack cigarette tax increase in 2007, its cigarette tax revenue increased by 115.4 percent (\$31.8 million), while revenue declined in North Dakota and Minnesota, and increased slightly in Montana (\$1.9 million), Nebraska (\$4.7 million), and Wyoming (\$2.0 million). Iowa's revenue increased significantly during that period, but that was because Iowa itself had increased its cigarette tax rate a few months after South Dakota's increase.¹³

After its \$1.00 per pack cigarette tax increase in 2018, Oklahoma's cigarette tax revenues increased by 45 percent (\$104.1 million) while cigarette tax revenues declined in all of its surrounding states, including in Missouri, where the cigarette tax is only 17 cents per pack compared to Oklahoma's \$2.03 per pack.¹⁴

Based on these examples, it's clear that the state that increases its tobacco taxes is reducing smoking, saving lives, and lowering health care costs, all while increasing revenue, while neighboring states will have only minimal revenue gains, if any, and even fewer health gains.

To protect your revenues and minimize tax evasion, the state can implement several proven measures, such as adopting new tax stamp technology and increasing enforcement, which will help minimize any tax evasion and maximize revenue.

Impact on Businesses and Employment. The opposition claims that stores will lose substantial revenue and be forced to close as a result of any tax increase, published research shows just the opposite. A national report looking at over 20 years of data in the U.S. found that while cigarette sales have declined, the number of convenience stores, inside-store sales revenues, cigarette sales revenues, and profits have all generally increased.¹⁵ These findings are consistent with a large body of research that shows that policies that reduce tobacco use do not have a negative impact on the economy, including on the number of convenience stores and tobacco retailers.¹⁶

When people stop purchasing tobacco products, they will continue to buy other products in the state, which contribute to the state's economy, including profits for small businesses. For instance, a pack-a-day smoker in North Dakota can use the \$3,000 per year they would have spent on cigarettes for other purchases or services in the state.¹⁷

And, as mentioned earlier, smoking takes a huge toll on productivity in this state. Lowering tobacco use with the tobacco tax increase can ensure a stronger workforce to attract more business to North Dakota.

Impact on Lower-Income Populations. Those who tell you that a tobacco tax increase is regressive somehow ignore the fact that tobacco itself exacts a disproportionate toll on the health of lower income families – that is what's regressive. The higher smoking rates among lower-income groups means they suffer disproportionately more from smoking and pay more in health care costs. Former Secretary of the U.S. Treasury, and co-chair of the Task Force on Fiscal Policy for Health, Larry Summers, stated, "An ethical judgment about taxing harmful products cannot rely on the question of tax regressivity alone.

Rather, it requires consideration of all the effects, including the associated health benefits, externalities, and health-care costs."¹⁸

Economic studies and reports from the CDC, the National Cancer Institute, the World Health Organization, and the International Agency for Research, show that lower-income smokers are price-sensitive and more likely to quit smoking in response to a price increase than higher-income smokers.¹⁹ The latest Surgeon General's Report concluded, "The evidence is sufficient to conclude that increases in tobacco product prices will reduce tobacco use to a greater extent among people of lower SES than they do for people of higher SES."²⁰ That is a major benefit for low-income families.

Remember, this is the industry that said, "We don't smoke that s___. We just sell it. We reserve the right to smoke for the young, the poor, the black and stupid."²¹ The tobacco industry heavily targets their products to vulnerable low-income Americans to get them addicted to these deadly products and then tries to claim that they're looking out for them. In a 2015 report, Wall Street analysts celebrated the tobacco industry's opportunities to "drive" tobacco sales among those they call "lower-income consumers – i.e. the tobacco consumer."²² It is hypocritical for the tobacco industry to claim that they oppose tobacco tax increases out of concern for the lower income population, while at the same time targeting them to increase sales and maximize profits.

Conclusion

Overall, we support increasing the state tax on cigarettes and taxing e-cigarettes as tobacco products. We also support dedicating tobacco tax revenue to improving health. I want to thank Senator Hogan for her leadership, dedication and partnership in reducing the toll of tobacco in North Dakota. In the spirit of our shared goals, I urge Senator Hogan and all legislators to support a significantly higher tax increase on cigarettes to generate the public health gains that we all seek.

Thank you.

¹ Orzechowski & Walker, *The Tax Burden on Tobacco*, 2023 [an industry-funded report].

² U.S. Centers for Disease Control and Prevention (CDC), *Best Practices for Comprehensive Tobacco Control Programs—2014*, <https://www.cdc.gov/tobacco/stateandcommunity/guides/pdfs/2014/comprehensive.pdf>.

³ Estimate based on U.S. Dept of Health & Human Services (HHS), "Results from the 2023 National Survey of Drug Use and Health: Summary of National Findings and Detailed Tables," with the state share of the national number estimated proportionally based on the projected number of youth smokers ages 0-17 reported in U.S. Department of Health and Human Services (HHS), *The Health Consequences of Smoking—50 Years of Progress: A Report of the Surgeon General*, 2014, https://www.ncbi.nlm.nih.gov/books/NBK179276/pdf/Bookshelf_NBK179276.pdf.

⁴ See, e.g., Chaloupka, FJ, "Macro-Social Influences: The Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products," *Nicotine and Tobacco Research* 1(Suppl 1):S105-9, 1999; Tauras, J, "Public Policy and Smoking Cessation Among Young adults in the United States," *Health Policy* 6:321-32, 2004; Tauras, J, et al., "Effects of Price and Access Laws on Teenage Smoking Initiation: A National Longitudinal Analysis," Bridging the Gap Research, ImpacTeen, April 24, 2001. Chaloupka, FJ & Pacula, R, *An Examination of Gender and Race Differences in Youth Smoking Responsiveness to Price and Tobacco Control Policies*, National Bureau of Economic Research, Working Paper 6541, April 1998; Emery, S, et al., "Does Cigarette Price Influence Adolescent Experimentation?," *Journal of Health Economics* 20:261-270, 2001; Evans, W & Huang, L, *Cigarette Taxes and Teen Smoking: New Evidence from Panels of Repeated Cross-Sections*, working paper, April 15, 1998; Harris, J & Chan, S, "The Continuum-of-Addiction: Cigarette Smoking in Relation to Price Among Americans Aged 15-29," *Health Economics Letters* 2(2):3-12, February 1998, <http://www.mit.edu/people/jeffrey/HarrisChanHEL98.pdf>. U.S. Department of Health and Human Services (HHS), *Reducing Tobacco Use: A Report of the Surgeon General*, Atlanta, Georgia: HHS, CDC, National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health, 2000, <https://archive.cdc.gov/www.cdc.gov/tobacco/sgr/2000/index.htm> HHS, *The Health Consequences of Smoking: 50 Years of Progress. A Report of the Surgeon General*, Atlanta, GA: HHS, CDC, National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health, 2014, https://www.ncbi.nlm.nih.gov/books/NBK179276/pdf/Bookshelf_NBK179276.pdf. See also, Campaign for Tobacco-Free Kids (CTFK), *Raising Cigarette Taxes Reduces Smoking, Especially Among Kids (and the Cigarette Companies Know It)*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0146.pdf>.

⁵ HHS, *The Health Consequences of Smoking: 50 Years of Progress. A Report of the Surgeon General*, 2014. Additional statements in support of tobacco tax increases are attached to this testimony and are also available at CTFK factsheet, *Raising Cigarette Taxes Reduces Smoking, Especially Among Kids (and the Cigarette Companies Know It)*, <https://assets.tobaccofreekids.org/factsheets/0146.pdf> and CTFK factsheet, *Excerpts from the 2012 & 2014 Surgeon General's Reports Supporting Tobacco Tax Increases*, <https://assets.tobaccofreekids.org/factsheets/0372.pdf>.]

⁶ National Cancer Institute, World Health Organization, *The Economics of Tobacco and Tobacco Control*, Monograph 21, 2016, <https://cancercontrol.cancer.gov/bro/tcrb/monographs/monograph-21>. Institute of Medicine (IOM), *Ending the tobacco problem: A blueprint for the nation*, Washington, DC: The National Academies Press, 2007, <https://nap.nationalacademies.org/catalog/11795/ending-the-tobacco-problem-a-blueprint-for-the-nation>. IOM, *Taking Action to Reduce Tobacco Use*, Washington, DC: National Academy Press, 1998, <https://nap.nationalacademies.org/catalog/6060/taking-action-to-reduce-tobacco-use>. World Health Organization (WHO), *WHO technical manual on tobacco tax policy and administration*, 2021, <https://www.who.int/publications/i/item/9789240019188>. The World Bank, *Curbing the Epidemic: Governments and the Economics of Tobacco Control*, May 1999, <https://documents1.worldbank.org/curated/en/914041468176678949/pdf/multi-page.pdf>. See also, CTFK, *Raising Cigarette Taxes Reduces Smoking, Especially Among Kids (and the Cigarette Companies Know It)*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0146.pdf>.

⁷ See CTFK factsheet, *Significant Tobacco Tax Increases Reduce Tobacco Use, Particularly among Youth, Despite Tobacco Company Price Discounts and Promotional Efforts*, <https://assets.tobaccofreekids.org/factsheets/0402.pdf>.

⁸ HHS, *Eliminating Tobacco-Related Disease and Death: Addressing Disparities—A Report of the Surgeon General*, Atlanta, GA: U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health, 2024, at 598, <https://www.hhs.gov/sites/default/files/2024-sgr-tobacco-related-health-disparities-full-report.pdf>.

⁹ CDC, *Best Practices for Comprehensive Tobacco Control Programs—2014*, <https://www.cdc.gov/tobacco/stateandcommunity/guides/pdfs/2014/comprehensive.pdf>.

¹⁰ CDC, *Best Practices for Comprehensive Tobacco Control Programs, 2014*; CDC, Smoking Attributable Mortality, Morbidity and Economic Costs (SAMMEC), <https://archive.cdc.gov/#/details?url=https://www.cdc.gov/statesystem/HealthConsequencesandCosts.html>; Shrestha, SS, et al., "Cost of Cigarette Smoking—Attributable Productivity Losses, U.S., 2018," *American Journal of Preventive Medicine* 63(4):478-485, 2022.

¹¹ National Research Council (NRC) & Institute of Medicine (IOM), *Understanding the U.S. Illicit Tobacco Market: Characteristics, Policy Context, and Lessons from International Experiences*, Committee on the Illicit Tobacco Market: Collection and Analysis of the International Experience, P. Reuter and M. Majumdar, Eds. Committee on Law and Justice, Division of Behavioral and Social Sciences and Education. Board on Population Health and Public Health Practice, Institute of Medicine. Washington, DC: The National Academies Press, 2015, <https://www.nap.edu/catalog/19016/understanding-the-us-illicit-tobacco-market-characteristics-policy-context-and>.

¹² Data from Orzechowski & Walker, *The Tax Burden on Tobacco* monthly reports [an industry-funded report].

¹³ Data from Orzechowski & Walker, *The Tax Burden on Tobacco* monthly reports [an industry-funded report].

¹⁴ Data from Orzechowski & Walker, *The Tax Burden on Tobacco*, 2023 [an industry-funded report].

¹⁵ Tauras, JA & Chaloupka, FJ, *The Economic Effects of Cigarette Sales and Flavor Bans on Tobacco Retail Businesses*, *Tobacconomics*, 2023, <https://www.economicsforhealth.org/research/the-economic-effects-of-cigarette-sales-and-flavor-bans-on-tobacco-retail-businesses/>.

¹⁶ Warner, K, et al., "Employment implications of declining tobacco product sales for the regional economies of the United States," *Journal of the American Medical Association (JAMA)* 275(16):1241-6, April 24, 1996. Warner, K, "Implications of a nicotine-free society," *Journal of Substance Abuse* 1(3):359-68, 1989. Warner, K & Fulton, G, "The economic implications of tobacco product sales in a non-tobacco state," *JAMA* 271(10):771-6, March 9, 1994. Golden, SD, et al., "Trends in the Number and Type of Tobacco Product Retailers, United States, 2000-2017," *Nicotine & Tobacco Research* 24(1):77-84, 2022. Huang, J & Chaloupka, FJ, "The Economic Impact of State Cigarette Taxes and Smoke-free Air Policies on Convenience Stores," *Tobacco Control* 22(2):91-6, 2013. Ribisl, KM, Evans, WN, & Feighery, EC, "Falling cigarette consumption in the U.S. and the impact upon tobacco retailer employment," in Bearman, P, Neckerman, K, & Wright, L, eds. *Social and Economic Consequences of Tobacco Control Policy*, New York: Columbia University Press, 2011.

¹⁷ CTFK, *Immediate Smoker Savings from Quitting in Each State*, <https://assets.tobaccofreekids.org/factsheets/0337.pdf>.

¹⁸ Summers, LH, "Taxes for health: evidence clears the air," *The Lancet*, published online April 4, 2018, [http://dx.doi.org/10.1016/S0140-6736\(18\)30629-9](http://dx.doi.org/10.1016/S0140-6736(18)30629-9).

¹⁹ CTFK, *Tobacco Tax Increases Benefit Lower-Income Smokers & Families*, <https://assets.tobaccofreekids.org/factsheets/0147.pdf>. See also, U.S. Centers for Disease Control and Prevention (CDC), "Responses to Cigarette Prices By Race/Ethnicity, Income, and Age Groups – United States 1976-1993," *Morbidity and Mortality Weekly Report* 47(29):605-609, July 31, 1998, <http://www.cdc.gov/mmwr/preview/mmwrhtml/00054047.htm>.

²⁰ HHS, *Eliminating Tobacco-Related Disease and Death: Addressing Disparities—A Report of the Surgeon General*, 2024, at 717.

²¹ Giovanni, J, "Come to Cancer Country; USA; Focus," *The Times of London*, August 2, 1992 [quoting Dave Goerlitz, RJ Reynolds' lead Winston model for seven years, re what an R.J. Reynolds executive replied to him when Goerlitz asked why the executive did not smoke].

²² Wells Fargo Securities, "Tobacco Talk"—Q4 U.S. Retailer Survey, January 27, 2015.



RAISING CIGARETTE TAXES REDUCES SMOKING, ESPECIALLY AMONG KIDS (AND THE CIGARETTE COMPANIES KNOW IT)

Based on a comprehensive review of evidence, the Surgeon General has called raising prices on cigarettes “one of the most effective tobacco control interventions” because increasing price is proven to reduce smoking, especially among kids.¹ However, the cigarette companies have opposed tobacco tax increases by arguing that raising cigarette prices would not reduce adult or youth smoking. But the companies’ internal documents, disclosed in the tobacco lawsuits, show that they know very well that raising cigarette prices is one of the most effective ways to prevent and reduce smoking, especially among kids. The World Health Organization stated it succinctly, “Tobacco taxes work. This is why the industry invests so much money and effort in blocking large tax increases and other effective tax policy reforms.”²

- Philip Morris: *Of all the concerns, there is one - taxation - that alarms us the most. While marketing restrictions and public and passive smoking [restrictions] do depress volume, in our experience ~~but~~ depresses it much more severely. Our concern for taxation is, therefore, central to our thinking*³
- Philip Morris: *When the tax goes up, industry loses volume and profits as many smokers cut back.*⁴
- RJ Reynolds: *If prices were 10% higher, 12-17 incidence [youth smoking] would be 11.9% lower.*⁵
- Philip Morris: *It is clear that price has a pronounced effect on the smoking prevalence of teenagers, and that the goals of reducing teenage smoking and balancing the budget would both be served by increasing the Federal excise tax on cigarettes.*⁶
- Philip Morris: *Jeffrey Harris of MIT calculated...that the 1982-83 round of price increases caused two million adults to quit smoking and prevented 600,000 teenagers from starting to smoke...We don't need to have that happen again.*⁷
- Philip Morris: *A high cigarette price, more than any other cigarette attribute, has the most dramatic impact on the share of the quitting population...price, not tar level, is the main driving force for quitting.*⁸

[For more on cigarette company documents and price/tax increases see the 2002 study in the *Tobacco Control* journal, “Tax, Price and Cigarette Smoking: Evidence from the Tobacco Documents.”⁹]

The cigarette companies have even publicly admitted the effectiveness of tax increases to deter smoking in their required filings with the U.S. Securities and Exchange Commission.

- Philip Morris: *Tax increases are expected to continue to have an adverse impact on sales of tobacco products by our tobacco subsidiaries, due to lower consumption levels...* [10-Q Report, November 3, 2008]
- Lorillard Tobacco: *We believe that increases in excise and similar taxes have had an adverse impact on sales of cigarettes. In addition, we believe that future increases, the extent of which cannot be predicted, could result in further volume declines for the cigarette industry, including Lorillard Tobacco* [10-Q Report, November 4, 2008]
- R.J. Reynolds: *Together with manufacturers’ price increases in recent years and substantial increases in state and federal taxes on tobacco products, these developments have had and will likely continue to have an adverse effect on the sale of tobacco products.* [10-Q Report, October 24, 2008]

Or, as the Convenience Store News put it: “It’s not a hard concept to grasp -- as taxes on cigarettes goes up, sales of cigarettes go down.”¹⁰

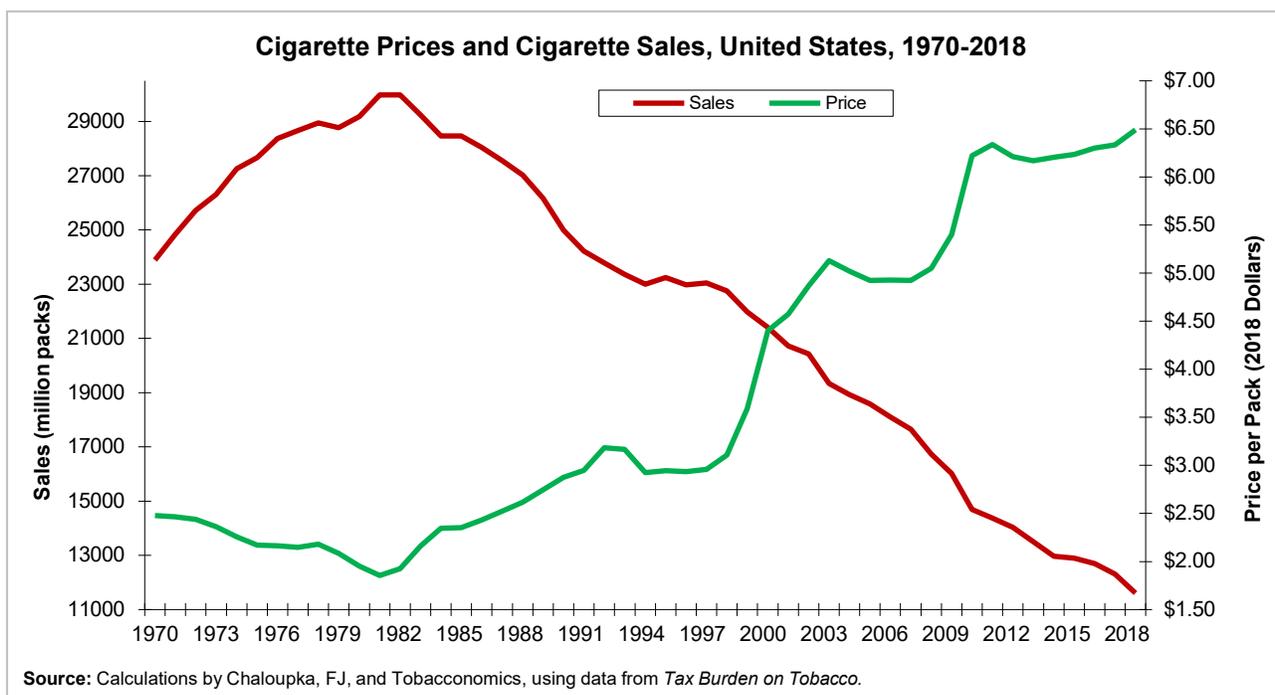
Economic Research Confirms That Cigarette Tax Increases Reduce Smoking. Numerous economic studies in peer-reviewed journals have documented that cigarette tax or price increases reduce both adult and underage smoking. The general consensus is that nationally, every 10 percent increase in the real price of cigarettes reduces adult smoking by about two percent, reduces smoking among young adults by about 3.5 percent, reduces the number of kids who smoke by six or seven percent, and reduces overall cigarette consumption by approximately three to five percent.¹¹ Research studies have also found that:

- Cigarette price and tax increases work even more effectively to reduce smoking among Blacks, Hispanics, and lower-income smokers.¹²

- A cigarette tax increase that raises prices by ten percent will reduce smoking among pregnant women by seven percent, preventing thousands of spontaneous abortions and still-born births, and saving tens of thousands of newborns from suffering from smoking-affected births and related health consequences.¹³
- Higher taxes on smokeless tobacco reduce its use, particularly among young males; and increasing cigar prices through tax increases reduce adult and youth cigar smoking.¹⁴
- By reducing smoking levels, cigarette tax increases reduce secondhand smoke exposure among nonsmokers, especially children and pregnant women.

Increasing Cigarette Prices and Declining Consumption

Although there are many other factors involved, the trends in cigarette prices and overall U.S. cigarette consumption from 1970 to 2017 show that there is a strong correlation between increasing prices and decreasing consumption.



While U.S. cigarette prices are largely controlled by the tobacco companies' price-setting decisions, increases in federal and state cigarette taxes also impact prices. Since 1970, the federal tax on cigarettes increased from eight cents to \$1.01 per pack, with the largest one-time increase of 61.66 cents per pack occurring in 2009. Meanwhile, the average state cigarette tax has increased from 10 cents to \$1.97 per pack today. Without these federal and state tax increases, U.S. cigarette prices would be much lower and U.S. smoking levels would be much higher.

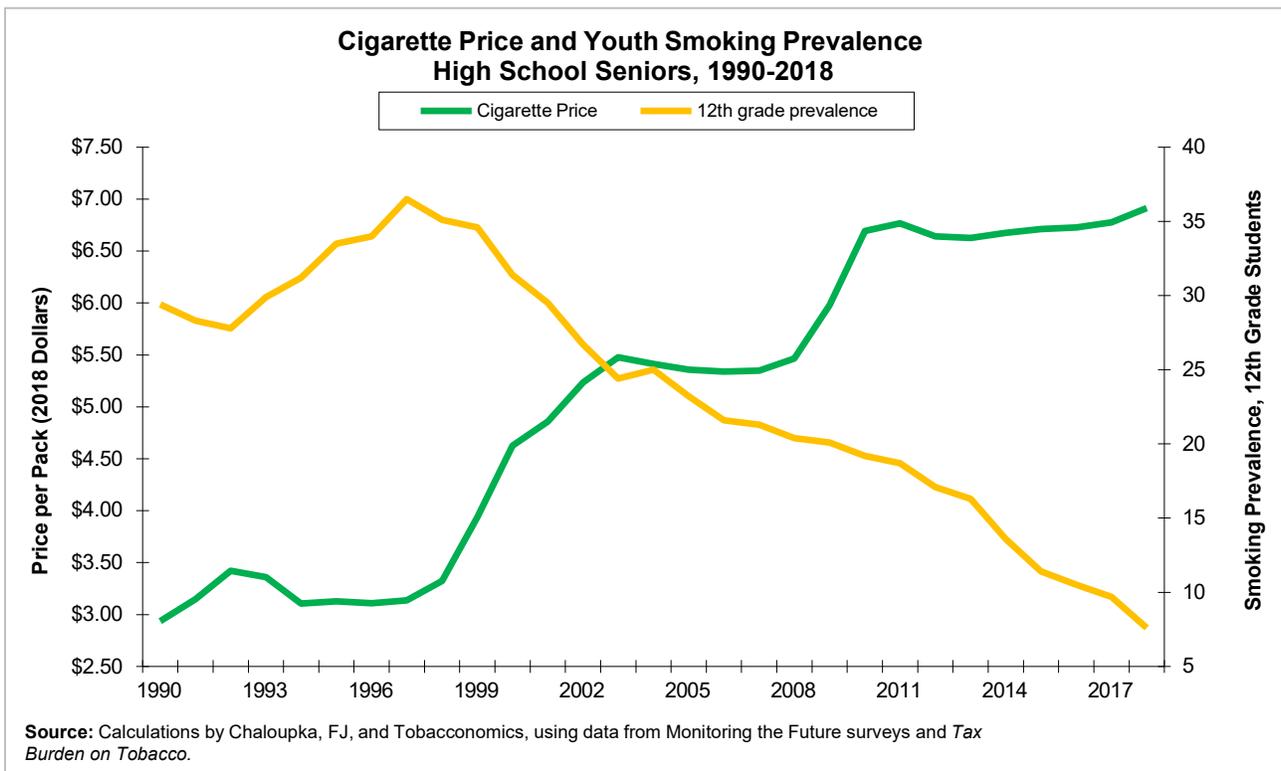
2009 Federal Experience. After the 2009 federal tobacco tax increase passed, calls to the national quitline (1-800-QUITNOW), which provides assistance to people who want to quit, increased by 30 percent in the 12 months after the increase compared to the 12 months before.¹⁵ In 2009, national pack sales declined by 8.3 percent—the largest one-year decline since 1932.

State Experiences. In every single state that has significantly raised its cigarette tax rate, pack sales have gone down sharply.¹⁶ While some of the decline in pack sales comes from interstate smuggling and from smokers going to other lower-tax states to buy their cigarettes, reduced consumption from smokers quitting and cutting back plays a more powerful role. As shown above, nationwide data – which count both legal in-state purchases and packs purchased through cross-border, Internet, or smuggled sales – show that overall packs sales go down as state cigarette tax increases push up the average national price.

Data show that state cigarette tax increases are prompting many smokers to quit or cutback. For example, after Oklahoma's \$1.00 per pack cigarette tax increase went into effect on July 1, 2018, its Tobacco Helpline

saw an 85 percent increase in registrations in the first month compared to the same period the year before.¹⁷ Similarly, Wisconsin Quit Line received a record-breaking 20,000 calls in the first two months after its \$1.00 per cigarette pack increase (it typically receives 9,000 calls per year).¹⁸ Likewise, in Texas and Iowa, which each increased their cigarette taxes by \$1.00 in 2007, the number of calls to the state quitlines were much higher compared to the year before.¹⁹ It is also clear that these efforts to quit by smokers after tax increases translate directly into lower future smoking rates. In Washington state, for example, adult smoking from the year before its 60-cent cigarette tax increase in 2002 to the year afterwards declined from 22.6 to 19.7 percent, reducing the number of adult smokers in the state by more than 100,000, despite overall population increases.²⁰

Prices and Youth Smoking Rates. The chart below shows the association between youth smoking prevalence and cigarette pack prices. As prices climbed in the late 1990s and early 2000s, youth smoking rates declined, but as the price decreased between 2003 and 2005 (along with funding for tobacco prevention programs in many states), youth rates increased. The large federal tobacco tax increase in 2009, as well as other state tax increases, helped drive further declines in youth smoking rates.



Researchers found that the 61.66-cent federal cigarette tax rate increase on April 1, 2009 had a substantial and immediate impact on youth smoking. The percentage of students who reported smoking in the past 30 days dropped between 9.7 percent and 13.3 percent immediately following the tax increase, resulting in an estimated 220,000 to 287,000 fewer current smokers among middle and high school students in May 2009.²¹

Expert Conclusions on Cigarette Prices and Smoking Levels

- The 2024 Surgeon General's Report, *Eliminating Tobacco-Related Disease and Death: Addressing Disparities*, concluded, "The evidence is sufficient to conclude that increases in tobacco product prices will reduce tobacco use to a greater extent among people of lower SES than they do for people of higher SES. Youth are especially price-sensitive, and price increases could help reduce tobacco use among people from all population groups at the age when they are most likely to begin smoking."²²
- The World Health Organization (WHO)'s 2021 *Technical Manual on Tobacco Tax Policy and Administration* stated, "The evidence is clear: significant increases in excise taxes that lead to price increases have consistently proven to be the most effective, as well as the most cost-effective, mechanism for reducing tobacco consumption."²³

- The National Cancer Institute (NCI) and WHO concluded in their 2017 report, *The Economics of Tobacco and Tobacco Control*, “A substantial body of research, which has accumulated over many decades and from many countries, shows that significantly increasing the excise tax and price of tobacco products is the single most consistently effective tool for reducing tobacco use. Significant increases in tobacco taxes and prices reduce tobacco use by leading some current users to quit, preventing potential users from initiating use, and reducing consumption among current users.”²⁴
- The 2014 Surgeon’s General Report recommends increasing tobacco taxes to reduce or prevent tobacco use. Specifically, the report states, “Evidence shows that large tax and, hence, price increases will decrease tobacco use each time they are implemented.”²⁵
- In November 2012, the Community Preventive Services Task Force, under the U.S. Department of Health and Human Services, completed a thorough review of recent evidence on the effectiveness of tobacco product price increases, including increasing tobacco taxes. Based on that work, the Task Force “recommends interventions that increase the unit price of tobacco products based on strong evidence of effectiveness in reducing tobacco use. Evidence is considered strong based on findings from studies demonstrating that increasing the price of tobacco products: Reduces the total amount of tobacco consumed; Reduces the prevalence of tobacco use; Increases the number of tobacco users who quit; Reduces initiation of tobacco use among young people; Reduces tobacco-related morbidity and mortality.”²⁶
- The 2012 Surgeon General’s report, *Preventing Tobacco Use Among Youth and Young Adults*, stated, “Federal, state, and local taxes that raise prices on tobacco products improve public health by reducing initiation, prevalence, and intensity of smoking among young people. Comprehensive reviews of the literature on the effect of price on tobacco consumption estimate a 3–5% reduction in overall cigarettes consumed as a result of a 10% increase in cigarette prices, and youth and young adults have proven to be even more responsive than adults to higher cigarette prices.”²⁷
- In its 2007 report, *Ending the Tobacco Problem: A Blueprint for the Nation*, the National Academy of Sciences’ Institute of Medicine recommends raising cigarette taxes in states with low rates and indexing them to inflation, to reduce cigarette consumption and to provide money for tobacco control. The report states, “Tobacco excise tax revenues pose a potential funding stream for state tobacco control programs. Setting aside about one-third of the per-capita proceeds from tobacco excise taxes would help states fund programs at the level suggested by CDC.”²⁸
- The President’s Cancer Panel’s 2007 report, *Promoting Healthy Lifestyles*, advised increasing state tobacco taxes, stating, “Increases in tobacco excise taxes, which are passed along to consumers in the form of higher tobacco product prices, have proven highly effective in reducing tobacco use by promoting cessation among current users, discouraging relapse among former users, preventing initiation among potential users, and reducing consumption among those who continue to use tobacco. These revenues also provide crucial dollars needed to fund anti-tobacco efforts.”²⁹
- The 2000 U.S. Surgeon General’s Report, *Reducing Tobacco Use*, found that raising tobacco-product prices decreases the prevalence of tobacco use, particularly among kids and young adults, and that tobacco tax increases produce “substantial long-term improvements in health.” From its review of existing research, the report concluded that raising tobacco taxes is one of the most effective tobacco prevention and control strategies.³⁰
- Wall Street tobacco industry analysts have long recognized the powerful role increased cigarette taxes and rising cigarette prices play in reducing U.S. smoking levels. For example, a December 1998 “Sensitivity Analysis on Cigarette Price Elasticity” by Credit Suisse First Boston Corporation settled on a “conservative” estimate that cigarette consumption will decline by four percent for every 10 percent increase in price.
- In its 1998 report, *Taking Action to Reduce Tobacco Use*, the National Academy of Sciences’ Institute of Medicine concluded, “the single most direct and reliable method for reducing consumption is to increase the price of tobacco products, thus encouraging the cessation and reducing the level of initiation of tobacco use.”³¹

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More information on state tobacco taxes is available at
http://www.tobaccofreekids.org/facts_issues/fact_sheets/policies/tax/us_state_local/.

¹ U.S. Department of Health and Human Services (HHS), *The Health Consequences of Smoking: 50 Years of Progress. A Report of the Surgeon General*, Atlanta, GA: HHS, Centers for Disease Control and Prevention (CDC), National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health, 2014, https://www.ncbi.nlm.nih.gov/books/NBK179276/pdf/Bookshelf_NBK179276.pdf.

² World Health Organization (WHO), *WHO Technical Manual on Tobacco Tax Policy and Administration*, April 2021, <https://www.who.int/publications/i/item/9789240019188>.

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⁵ R.J. Reynolds Executive D. S. Burrows, "Estimated Change In Industry Trend Following Federal Excise Tax Increase," September 20, 1982, Bates No. 501988846/8849.

⁶ Philip Morris Research Executive Myron Johnston, "Teenage Smoking and the Federal Excise Tax on Cigarettes," September 17, 1981, Bates No. TA82034-TA82038.

⁷ Philip Morris Executive Jon Zoler, "Handling An Excise Tax Increase," September 3, 1987, Bates No. 2022216179/6180.

⁸ Philip Morris Executive Claude Schwab, "Cigarette Attributes and Quitting," March 4, 1993, Bates No. 2045447810.

⁹ Chaloupka, FJ, et al., "Tax, Price and Cigarette Smoking: Evidence from the Tobacco Documents and implications for tobacco company marketing strategies," *Tobacco Control* 11:62-72, March 2002.

¹⁰ "Cigarette Sales Down after Tax Increases," *Convenience Store News*, June 5, 2009.

¹¹ See, e.g., Chaloupka, FJ, "Macro-Social Influences: The Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products," *Nicotine and Tobacco Research* 1(Suppl 1):S105-9, 1999; other studies at <https://www.economicsforhealth.org/>; Tauras, J, "Public Policy and Smoking Cessation Among Young adults in the United States," *Health Policy* 6:321-32, 2004; Tauras, J, et al., "Effects of Price and Access Laws on Teenage Smoking Initiation: A National Longitudinal Analysis," National Bureau of Economic Research Working Paper 8331, June 2001, <https://www.nber.org/papers/w8331>. Chaloupka, FJ & Pacula, R, *An Examination of Gender and Race Differences in Youth Smoking Responsiveness to Price and Tobacco Control Policies*, National Bureau of Economic Research, Working Paper 6541, April 1998; Emery, S, et al., "Does Cigarette Price Influence Adolescent Experimentation?," *Journal of Health Economics* 20:261-270, 2001; Evans, W & Huang, L, *Cigarette Taxes and Teen Smoking: New Evidence from Panels of Repeated Cross-Sections*, working paper, April 15, 1998; Harris, J & Chan, S, "The Continuum-of-Addiction: Cigarette Smoking in Relation to Price Among Americans Aged 15-29," *Health Economics Letters* 2(2):3-12, February 1998, <http://www.mit.edu/people/jeffrey/HarrisChanHEL98.pdf>. HHS, *Reducing Tobacco Use: A Report of the Surgeon General*, Atlanta, Georgia: HHS, CDC, National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health, 2000, <https://digrp.nlm.nih.gov/ext/document/101584932X181/PDF/101584932X181.pdf>.

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¹⁴ Chaloupka, FJ, Tauras, J & Grossman, M, "Public Policy and Youth Smokeless Tobacco Use," *Southern Economic Journal* 64(2):503-16, October 1997. Ringel, JS, Wasserman, J, & Andreyeva, T, "Effects of Public Policy on Adolescents' Cigar Use: Evidence From the National Youth Tobacco Survey," *American Journal of Public Health* 95:995-998, 2005.

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¹⁶ TFK Factsheet, *Raising State Cigarette Taxes Always Increases State Revenues (and Always Reduces Smoking)*, <http://tobaccofreekids.org/research/factsheets/pdf/0098.pdf>.

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¹⁹ Souza, M, "Thank you for Smoking," *Longview-News Journal*, April 22, 2007. "Calls to Quitline Iowa double after cigarette tax raised," *AP*, March 22, 2007. See also, TFK Factsheet, *Quitlines Help Smokers Quit*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0326.pdf>.

²⁰ CDC, Current Adult Smokers, Behavioral Risk Factor Surveillance System (BRFSS).

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²² HHS, *Eliminating Tobacco-Related Disease and Death: Addressing Disparities—A Report of the Surgeon General*, Atlanta, GA: U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health, 2024, at 717, <https://www.hhs.gov/sites/default/files/2024-sgr-tobacco-related-health-disparities-full-report.pdf>.

²³ WHO, *WHO Technical Manual on Tobacco Tax Policy and Administration*, April 2021, <https://www.who.int/publications/i/item/9789240019188>.

²⁴ U.S. National Cancer Institute & World Health Organization, *The Economics of Tobacco and Tobacco Control*, National Cancer Institute Tobacco Control Monograph 21, NIH Publication No. 16-CA-8029A, Bethesda, MD: U.S. Department of Health and Human Services, National Institutes of Health, National Cancer Institute; and Geneva, CH: World Health Organization; 2016, https://cancercontrol.cancer.gov/brp/tcrb/monographs/21/docs/m21_complete.pdf.

²⁵ HHS, *The Health Consequences of Smoking: 50 Years of Progress. A Report of the Surgeon General*, 2014, https://www.ncbi.nlm.nih.gov/books/NBK179276/pdf/Bookshelf_NBK179276.pdf.

²⁶ Community Preventive Services Task Force, *Tobacco Use: Interventions to Increase the Unit Price for Tobacco Products*, Systematic Review, November 2012, <https://www.thecommunityguide.org/findings/tobacco-use-interventions-increase-unit-price-tobacco.html>.

²⁷ HHS, *Preventing Tobacco Use Among Youth and Young Adults: A Report of the Surgeon General*, 2012, https://www.ncbi.nlm.nih.gov/books/NBK99237/pdf/Bookshelf_NBK99237.pdf.

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EXCERPTS FROM THE 2012 AND 2014 SURGEON GENERAL'S REPORTS SUPPORTING TOBACCO TAX INCREASES

The 2012 Surgeon General's Report, *Preventing Tobacco Use Among Youth and Young Adults*,¹ and the 2014 Surgeon General's Report, *The Health Consequences of Smoking—50 Years of Progress*,² reviewed the available research and found strong support for increasing tobacco taxes to reduce tobacco use. Noting that the "current rate of progress in tobacco control is not fast enough. More needs to be done," the 2014 Surgeon General's report calls for a number of specific actions, including: **"Raising the average excise cigarette taxes to prevent youth from starting smoking and encouraging smokers to quit."** (pg. 875)

Increasing the price of tobacco products, including increasing the tax, reduces tobacco use.

Excerpts from the 2012 Surgeon General's Report:

"Coordinated, multicomponent interventions that combine mass media campaigns, price increases including those that result from tax increases...are effective in reducing the initiation, prevalence, and intensity of smoking among youth and young adults." (pg. 8)

"A majority of the existing research suggests that the effects of price on smoking prevalence involve both a decrease in initiation of smoking among youth and an increase in cessation among young adults." (pg. 707)

"Most of the research over the past decade has concluded that increases in cigarette prices lead to reductions in the prevalence of smoking and its intensity among youth and young adults." (pg. 707)

"Most of the recent research has concluded that adolescents and young adults are more responsive than adults to changes in cigarette prices." (pg. 707)

"Federal, state, and local taxes that raise prices on tobacco products improve public health by reducing initiation, prevalence, and intensity of smoking among young people. Comprehensive reviews of the literature on the effect of price on tobacco consumption estimate a 3–5% reduction in overall cigarettes consumed as a result of a 10% increase in cigarette prices, and youth and young adults have proven to be even more responsive than adults to higher cigarette prices...." (pg. 809-810)

"Higher cigarette prices, including those resulting from increased excise taxes, have also been shown to increase cessation among young adults; one study (Tauras 2004) confirmed a positive relationship between cigarette prices and smoking cessation, with a 10% rise in price increasing successful cessation by young adults by an estimated 3.5%." (pg. 810)

"Clearly, making smokeless tobacco products available more cheaply could promote their use among price-sensitive youth. In addition, disparities in tobacco taxation (i.e., higher taxes for cigarettes than for smokeless tobacco) could result in a switch to smokeless tobacco among young males...." (pg. 202)

"Tobacco control policies, including higher taxes on smokeless tobacco...are effective in reducing the use of smokeless tobacco among adolescent males...." (pg. 802)

Excerpts from the 2014 Surgeon General's Report:

"Raising prices on cigarettes is one of the most effective tobacco control interventions." (pg. 869)

"The evidence is sufficient to conclude that increases in the prices of tobacco products, including those resulting from excise tax increases, prevent initiation of tobacco use, promote cessation, and reduce the prevalence and intensity of tobacco use among youth and adults." (pg. 827)

"Additional price increases would accelerate progress in reducing youth and young adult rates of tobacco use." (pg. 869)

"Evidence shows that large tax and, hence, price increases will decrease tobacco use each time they are implemented." (pg. 852)

The report notes that there are “evidence-based strategies that can rapidly drop youth initiation and prevalence rates down to single digits . . .” (p.872) In addition, the report reviews, “a broad range of well-defined and effective interventions proven to reduce adult smoking rates if implemented and sustained at funding levels consistent with CDC’s recommended levels.” (p.872) Among these “effective programs and policies,” is “a higher average retail price of cigarettes in the United States. Experience from across the globe suggests at least \$10 a pack in the United States.” (p.872)

“The 2009 U.S. federal tax increase on cigarettes and subsequent tax increases at the state and local levels represent recent successes in tobacco control.” (pg. 792)

“In February 2009, the Children’s Health Insurance Program Reauthorization Act, Public Law 111-3, U.S. Statutes at Large 8 was signed, which included an unprecedented \$0.62 increase in the federal excise tax on cigarettes to \$1.01 per pack. This single legislative act— increasing the price of cigarettes—is projected to have reduced the number of middle and high school students who smoke by over 220,000 and the number using smokeless tobacco products by over 135,000.” (pg. 869)

“Increasing the federal tax for noncigarette products, implementing systems to control for tax avoidance and evasion (e.g., high-tech tax stamps and track and trace systems), shrinking the tax disparity between states and localities, and establishing a taxation system that accounts for inflation, would likely improve the impact of taxes on the prevalence of tobacco use, especially among young smokers most sensitive to price. Closing the gap in these federal tax rates would further reduce tobacco use and increase tobacco revenues at the federal level.” (pg. 792)

“Taxes on tobacco provide revenue to governments at a relatively low administrative cost, making these taxes especially appealing. Moreover, higher taxes have decreased consumption of tobacco products, especially cigarettes, and thereby improved public health.” (pg. 788)

“Five general conclusions can be drawn from these reviews (Chaloupka 2011; IARC 2011). First, increases in cigarette prices can lead to substantial reductions in cigarette smoking. The consensus estimate from the two reviews is that a 10% increase in cigarette price will result in a 3–5% reduction in overall cigarettes consumed. Second, increases in cigarette prices will decrease not only the prevalence of smoking but also the average number of cigarettes smoked by smokers. Third, much previous research on cigarette consumption among youth suggests that both youth and young adults are more responsive than adults to changes in cigarette prices, with several studies finding youth and young adults to be two to three times as responsive to changes in price as adults (see USDHHS 2012 for a complete review). Fourth, there is greater price responsiveness among lower income populations (IARC 2011). Finally, state excise tax increases create revenues for states.” (pg. 789)

Dedicating revenue from tax increases to funding prevention program amplifies public health benefits.

Excerpts from the 2012 Surgeon General’s Report:

“In addition, the combination of program activity and increases in tobacco taxes was found to reduce cigarette consumption more than would be expected from price increases alone.” (pg. 694)

Industry price promotions are used to counter the impact of tobacco tax increases.

Excerpts from the 2012 Surgeon General’s Report:

“...given the evidence on the price sensitivity of tobacco use among youth that is discussed in detail in Chapter 6, along with the evidence on the impact of tax increases on prices discussed below, it is possible that the observed reductions in smoking among youth would have been even larger had the price increases from state and federal taxes not been offset at least partially by discounting and other price-related promotions by cigarette companies.” (pg. 526)

“...it can be concluded that the industry’s extensive use of price-reducing promotions has led to higher rates of tobacco use among young people than would have occurred in the absence of these promotions.” (pg. 530)

“Evidence in this chapter also outlines industry actions to attract price-sensitive populations such as youth to their products, as well as to soften the price impact on consumers of increases in federal and state tobacco excise taxes (Chaloupka et al. 2002). Because there is strong evidence that as the price of tobacco products increases, tobacco use decreases, especially among young people, then any actions that mitigate

the impact of increased price and thus reduce the purchase price of tobacco can increase the initiation and level of use of tobacco products among young people.” (pg. 599)

Excerpts from the 2014 Surgeon General's Report:

“...the tobacco industry has developed extremely sophisticated mechanisms to blunt and mitigate the effects of price increases. These include Web-based, mail-order, brand repositioning, and store-based discounting that is timed to scheduled price increases.” (pg. 791)

“...the tobacco industry has used a mixture of actions to alter the prices of their products, including a variety of price-reducing promotions, and that these actions attract price-sensitive populations such as youth to their products, as well as soften the price impact on consumers of increases in federal and state tobacco excise taxes.” (pg. 797)

¹ U.S. Department of Health and Human Services (HHS), *Preventing Tobacco Use Among Youth and Young Adults: A Report of the Surgeon General*, Atlanta, GA: HHS, Centers for Disease Control and Prevention (CDC), National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health 2012, <https://www.surgeongeneral.gov/library/reports/preventing-youth-tobacco-use/index.html>.

² HHS, *The Health Consequences of Smoking: 50 Years of Progress. A Report of the Surgeon General*, Atlanta, GA: HHS, CDC, National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health, 2014, <http://www.surgeongeneral.gov/library/reports/50-years-of-progress/index.html>.