



STATE CIGARETTE TAX INCREASES WILL NOT HURT U.S. TOBACCO FARMERS OR CIGARETTE FACTORY WORKERS

Increasing a state's cigarette tax rate by a significant amount would reduce smoking levels and cigarette sales in the state. But the increase will have a considerably smaller impact on the overall demand for American-made cigarettes or American-grown tobacco leaf because of cigarette and tobacco leaf exports and other factors. While other ongoing factors are having a much more negative impact on incomes or job security of U.S. tobacco growers and cigarette factory workers, cigarette tax increases actually provide U.S. farmers and cigarette industry workers with a variety of direct and indirect benefits.

State Smoking Declines Play a Relatively Small Role in the Overall Demand for U.S. Tobacco Leaf and American-Made Cigarettes.

State cigarette tax rates and increases have no impact at all on the more than half of the overall demand for American-grown cigarette tobacco leaf that depends on foreign sales and smoking. More specifically, they have no impact on the sales of American-grown leaf to foreign cigarette manufacturers, which currently account for about 69 percent of annual sales of U.S. burley and 45 percent of all flue-cured leaf sold each year (the two main types of tobacco in American-made cigarettes).¹ They also have no impact on the more than 20 percent of all American-made cigarettes (containing U.S.-grown leaf) that are exported for sale overseas or otherwise sold free of federal and state cigarette taxes.² To the extent that they reduce purchases of cigarettes imported into the United States, U.S. smoking declines also have no effect on U.S. cigarette manufacturing and only a very small effect on the demand for U.S. leaf (because imported cigarettes contain significantly less American-grown leaf than U.S. made cigarettes).

In addition, cigarette tax increases reduce cigarette sales only to the extent that they prompt significant percentage increases in the final prices charged for cigarettes – with a ten percent increase in cigarette taxes producing roughly a four percent decrease in cigarette consumption.³ For example, a 50-cent increase to the current tax on a pack of cigarettes in California (which accounts for more cigarette sales than any other state because of its large population) would increase the average price of a pack of cigarettes in California by approximately 12.2 percent, which would reduce cigarette consumption in that state by roughly 4.6 percent. That consumption drop would amount to about 145 million fewer packs being sold in the United States each year, which would translate to a decline in the overall demand for burley tobacco of about two-tenths of one percent and a decline in flue-cured leaf of less than four tenths of one percent. For another example, totally eliminating all cigarette sales in Kentucky would reduce the overall demand for U.S. burley by eight-tenths of a percent and flue-cured leaf by one and a half percent.

Other Factors are Hurting U.S. Tobacco Farmers and Cigarette Factory Workers More Than U.S. Smoking Declines.

- The U.S. cigarette companies like to blame their reduced demand for U.S. tobacco on declines in U.S. smoking levels. For example, from 1995 to 1998, the U.S. cigarette companies reduced their purchases of U.S. tobacco leaf by more than 26 percent, while U.S. cigarette consumption declined by only 3.5 percent. Then, between 1998 and 2002, U.S. tobacco leaf purchases by U.S. cigarette companies declined by nearly 37 percent, while U.S. cigarette consumption fell by only about 11 percent.⁴
- The cigarette companies also like to blame U.S. smoking declines for their U.S. plant closures and layoffs. But from 1982 to 1996, the number of people directly employed in tobacco manufacturing in the United States dropped from 58,000 to just over 31,000 (a more than 45 percent decline) while total U.S. cigarette production increased by almost nine percent.⁵ Between 2002 and 2005, U.S. tobacco product manufacturing employment decreased at a higher rate, by more than 16 percent (from almost 22,500 to about 18,800), than total U.S. cigarette production, which declined by 2.2 percent.⁶

The Real Problem: the Cigarette Companies' Ongoing Shift To Foreign Tobacco Leaf and Overseas Cigarette Production.

Clearly, the biggest impact on U.S. cigarette factory workers and U.S. tobacco farmers is not the relatively small impact on total demand from annual U.S. smoking declines, but the much bigger changes caused by foreign competition, tobacco industry leaf purchasing and manufacturing choices, and the tobacco industry's ongoing shift from U.S. cigarette exports to foreign manufacturing and from domestic to foreign-grown leaf.

At the same time, U.S. tobacco farmers have received about \$2.5 billion from Phase II of the state tobacco settlements to help adjust to any declines in demand for U.S. leaf caused by those tobacco settlements. In addition, starting in 2005, the buyout of the U.S. tobacco price support program is not only making U.S. tobacco more price competitive with foreign leaf but also paying U.S. tobacco farmers and tobacco farming quota holders approximately \$10 billion over a 10-year period.⁷ Compared to these massive payments, any financial impact on U.S. tobacco farmers from a federal cigarette tax increase would be trivial.

U.S. Tobacco Growers And Cigarette Factory Workers Will Enjoy The Same Benefits As Other Americans From Smoking Reductions Caused By Federal Cigarette Tax Increases.

Smoking reductions from cigarette tax increases will save lives, reduce human suffering, improve public health, reduce public and private health costs, and prevent thousands of kids from smoking.⁸ As concerned citizens, taxpayers, health consumers, and parents, U.S. growers and cigarette factory workers can share in all of these benefits and savings.

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**For more information, on the benefits of increasing state tobacco taxes, see
<http://www.tobaccofreekids.org/research/factsheets/index.php?CategoryID=18>**

¹ Economic Research Service (ERS), USDA, *Tobacco Briefing Room*, Table 14, <http://www.ers.usda.gov/Briefing/tobacco/tables.htm>.

² U.S. taxable sales constituted 75% of total U.S. cigarette production in 2006, with the rest exported or otherwise sold free of federal or state taxes. ERS, USDA, *Tobacco Briefing Room*, Table 1, <http://www.ers.usda.gov/Briefing/tobacco/tables.htm>.

³ See, e.g., Chaloupka, F., "Macro-Social Influences: The Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products," *Nicotine and Tobacco Research* (1999) and other price studies available at <http://tigger.uic.edu/~fjc> and www.uic.edu/orgs/impacteen.

⁴ ERS, USDA, *Tobacco Outlook*, April 28, 2006, Table 16, <http://usda.mannlib.cornell.edu/usda/ers/TBS/2000s/2006/TBS-04-28-2006.pdf>.

⁵ U.S. Bureau of the Census, 1996 Survey of Manufactures, February 1998, www.census.gov.

⁶ U.S. Census Bureau, Statistics for Industry Groups and Industries, 2005; Annual Survey of Manufactures, November 2006, <http://www.census.gov/prod/2006pubs/am0531gs1.pdf>.

⁷ USDA Farm Service Agency, <http://www.fsa.usda.gov/FSA/webapp?area=home&subject=toba&topic=landing>.

⁸ For more information on the public health benefits of increasing the federal cigarette tax, see TFK Factsheet, *Federal Cigarette Excise Tax Increases: Estimated New Revenues, Cost Savings, and Other Benefits & Effects*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0149.pdf>.

* Just recently, Philip Morris announced that it would be closing one of its U.S. tobacco leaf processing plants and shifting even more of its U.S. cigarette manufacturing to Europe in order to better serve foreign markets. ["PM processing factory to close," *Tobacco Reporter*, June 2007; Press Release, "Altria Group, Inc. Announces Plans by Its Tobacco Subsidiaries to Optimize Worldwide Cigarette Production," June 26, 2007, http://www.altria.com/investors/02_00_NewsDetail.asp?reqid=1019436.]