



DAILY NEWS CLIPS

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RETAILERS ANGERED BY “ROLL-YOUR-OWN CIGARETTE TAX”

Blog Post by CigaretteHouse.com

May, 8 2012

Tobacco store owners claim their business would be affected dramatically if Washington lawmakers, desperate to cover \$1 billion hole in state budget, would increase taxes for roll-your-own cigarettes. Supporters of the tax hike say it would close a loophole that unfairly benefits to tobacco-rolling machine industry.

The rolling machines allow smokers roll their own cigarettes using loose tobacco and wrapping paper in cigarettes in nearly 10 minutes, at half price of pre-packaged cigarettes. That’s partially because state excise taxes – 15 cents per every cigarette – are not implied to the roll-your-own cigarettes.

Charles Bertrand runs two Tobacco shops in Washington and says that in case roll-your-own products will be taxed as conventional cigarettes he would have to shut down the business, as people will stop buying do-it-yourself tobacco products.

He admits less expensive alternatives are vital for the customers.

“Most of people coming here are low-income and elderly, they really believe that roll-your-own machines are a blessing for them,” Bertrand said.

However, supporters of increasing the tax on do-it-yourself cigs state the lawmakers should think about public health and fairness.

Democratic Rep. Steve Kirby, sponsor of the House Bill 2565 said that if passed, the bill would tax roll-your-own cigarettes like pre-packaged ones. The bill passed the House, but was not considered by the Senate.

Yet, Gov. Chris Gregoire said last week that she would support passing the cigarette tax to roll-your-owns and that the bill is still there for budget negotiations.

According to the bill, the tax would generate not less than \$12 million in revenue for the state just in the first year, and about \$13 million each year. Imposing the tax would increase the average price per carton

of roll-your-own cigarettes from \$34.50 up to \$67.60, as the fiscal not states. All other additional taxes, such as occupation taxes, would in most part account for the rise.

Implementing the tax would be an important public health measure, some say.

"We are not reducing people's addiction to tobacco by offering them cheaper alternatives, including roll-your-owns," Gov. Gregoire said. "... The public health problem is my biggest concern."

Convenience stores owners also lobbying for the measure. They say they were hit by the 2009 federal tax increase, and now are further affected when customers switch to cheaper alternatives.

"The best answer in this case is to tax roll-your-own stores as if they were selling pre-packaged cigarettes, as that is exactly what they have been doing. ... We now have many new companies that found a very wise way to avoid cigarette taxes," admitted T.K. Bentler, director of the Washington Association of Neighborhood Stores, representing of nearly 4,000 convenience stores. He is also lobbying for Reynolds American, the maker of Camel cigarettes.

"We would shut down our businesses if this bill is approved," said Joe Baba, the distributor of the roll-your-own machines. "... It's Big Tobacco doing its best to level up the competition and return their customers."

Originally published here: <http://cigarettesale.blogspot.com/2012/05/tobacco-retailers-angered-by-roll-your.html>

TOBACCO REGULATION UPDATE: MODI OFFERS INSIGHTS INTO RYO, MENTHOL, OTHER LEGISLATION IN EXCLUSIVE CSP WEBINAR (PART 2)

By Melissa Vonder Haar

CSP Daily News

May 7, 2012

Menthol, RYO and graphic warnings: these were the three regulatory issues UBS senior tobacco analyst Nik Modi predicted the tobacco industry would be talking about in 2012.

"There's no real sense of urgency," on the part of the U.S. Food & Drug Administration (FDA), Modi said during last week's Tobacco Update CSPNetwork CyberConference regarding the agency's lack of movement on menthol regulation.

Although a stance on menthol regulation has been expected for some time, the only clue to the government's thinking so far has come through their response to a World Trade Organization (WTO) complaint about clove cigarettes. The State Department justified the United States banning cloves but not menthol because the two are not "like products."

Nik Modi, Joe Teller "What I found interesting about the response from the Obama administration was it basically confirmed their concerns of banning menthol," Modi said. Such concerns include the idea that clove and menthols attract different consumers--cloves drawing in beginners, menthols being popular

amongst established smokers--and the possible emergence of a black market were menthols banned. Based off this response, Modi doesn't expect a menthol decision to come any time soon.

On the other hand, Modi expects to see lots of movement on roll-your-own (RYO) regulation. As of last Wednesday, when Modi presented, Arkansas, South Dakota, Virginia and Wyoming had all passed laws classifying RYO machine operating retailers as manufacturers and Tennessee had passed a bill requiring RYO machine operating retailers to pay an annual licensing fee and collect state excise tax on store rolled cigarettes.

Just one day later, Tobacco E-News and NATO learned that Iowa, Washington State and Oklahoma all had passed RYO regulation over a 24-hour period.

Modi was quick to note it's not just states that are coming down on RYO, Congress is currently debating a bill that would classify RYO machine operating retailers as manufacturers, forcing them to pay a \$1.01 federal cigarette tax per pack in addition to the applicable state taxes.

"It looks like this is coming to an end," Modi said of the success of the large RYO machines. "This is a trend that's likely to fade."

The Latest On Graphics

The graphic warning label debate continues to rage on, with the FDA asking for a joint ruling on both the Warning Label Size and Compelled Speech appeals. While Modi is certain the issue will ultimately end up in the Supreme Court, he highlighted many interesting points from the ongoing battle.

"I think everyone knows tobacco is a harmful product at this point," Modi said. "The question from a legal perspective is 'how far is too far?'"

Modi referenced Judge Janice Rogers Brown, who went on the record asking "could the government mandate a cigarette warning that said 'Stop! If you buy this product, you are a moron'? Where does this stop?"

Should graphic warning labels be upheld by the Supreme Court, Modi doesn't see it having much impact. Countries that have employed similar warning labels have not seen significant change in cigarette sales.

One possible explanation? "There is a part of the brain (the Nucleus Accumbens) that, when a health warning is used, actually stimulates the brain's desire to smoke," Modi said.

With a decision not likely in the near future and data from other countries suggesting no real impact, Modi sees little cause for concern on graphic warning labels. "I don't think it's going to happen, but if it does, I'm not really worried."

Originally published here : <http://www.cspnet.com/news/tobacco/articles/tobacco-regulation-update>

LETTER: ROLL-YOUR-OWN CIGARETTE BUSINESSES ENJOY LOOPHOLE

Letter to the Editor by Wes Carruthers, President of Tennessee Fuel and Convenience Store Association
The Daily News Journal (TN)
May 7, 2012

I am writing to you to express my concern about a growing problem that is threatening the longevity and economic viability of honest retailers. Over the past few years, roll-your-own (RYO) cigarette machines have been popping up in retail outlets in communities across Tennessee and the country. These RYO operators have taken advantage of a tax loophole that allows them to manufacture and sell cigarettes at considerably lower prices than those produced in traditional cigarette factories. By inaccurately labeling loose cigarette tobacco as "pipe tobacco," and allowing consumers to produce cigarettes in their stores, retailers evade standard pre-packaged cigarette taxes. By offering the same product at a heavily discounted price, these retailers are afforded an unmatched and unfair competitive advantage.

Because of this practice, tax-compliant, law-abiding retailers are seeing their revenues decline. If this trend is allowed to continue, these retailers who play by the rules will have a hard time growing their businesses and providing much-needed jobs in their communities.

With our state's small businesses and job creators in mind, Tennessee's own Congresswoman Diane Black has introduced House Resolution 4134, legislation that would put this unfair business practice to an end. If passed into law, House Resolution 4134 would close this tax loophole once and for all without raising taxes on any tobacco products. This bill would level the playing field, bringing fairness and equality back to the retail cigarette business.

I support this measure and ask that my fellow retailers and citizens urge their members of Congress to take action and get behind this bill. Free enterprise and competition are the foundations of our economy, and this legislation would ensure that they continue to be.

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TOBACCO STOCK: A HARD HABIT TO BREAK

Posted by MoneyShow.com, Originally by Shirley Won, The Global Mail
MSN Money
May 7, 2012

The industry is offsetting revenue declines by cutting costs, boosting prices and diversifying into smokeless tobacco products like snuff.

Somebody forgot to tell investors that cigarettes are a declining business.

The S&P 500 tobacco index has beaten the market, jumping 13% so far this year after surging 36% in 2011. While the U.S. tobacco industry must wrestle with falling cigarette sales, rising taxes and potential litigation headaches, dividend hunters can't kick the industry's lush payouts.

"The products tobacco companies make are abhorrent, . . . but they are amazing businesses," says Darren McKiernan, a portfolio manager with Invesco Canada. "The beautiful thing about it is that these companies generate so much cash," he added. "They pay out 50% to 75% of their earnings in the form of dividends, and they buy back stock."

Philip Morris International (PM 0.00%) and its former parent Altria (MO 0.00%), both of which sell the iconic Marlboro brand, are among the best-positioned bets in a sector where dividends now yield 3% to 6%. Both companies recently reported higher first-quarter profit, while Lorillard (LO 0.00%) and Reynolds American (RAI 0.00%) earnings fell on weaker cigarette volume.

Sales of cigarettes have been falling in markets like the United States and other developed countries because of smoking bans and concerns about tobacco-related cancer. But the industry has been offsetting revenue declines by cutting costs, boosting prices, and diversifying into smokeless tobacco products like snuff, which is inhaled through the nose, and snus, which users insert between their teeth and gums.

Lorillard, which last year fought off a proposed U.S. government ban on its top-selling menthol cigarettes, expanded its offerings last week by buying Blu Ecigs, a maker of electronic cigarettes that heat nicotine-laced liquid and convert it into a mist.

"At some point the party ends, but as far as I can tell, it is a long, long way off," said McKiernan, who owns Philip Morris, Altria, and British American Tobacco (BTI 0.00%) in his global dividend fund.

While the U.S. tobacco industry continues to battle lawsuits, "the litigation environment is more benign now" because it has won some big cases, and litigation is less prevalent in other countries, he said. "The dirty little secret is that the biggest beneficiaries of tobacco companies are the local governments, because of the taxes."

China, home to a third of the world's smokers, is a closed market where tobacco sales are dominated by state-owned China National Tobacco. But cigarette sales are rising in other Asia markets, where consumers with more disposable income seek out prestigious brands such as Marlboro.

Unlike its three domestically focused U.S. peers, Philip Morris International is "generating growth and has momentum" in international markets, said Wells Fargo Securities analyst Bonnie Herzog. She rates the stock as her "top pick" with a one-year target of \$96 a share.

"I expect Philip Morris' profit in Asia to double to over \$10 billion by the year 2020," she said. "One of the big drivers is Indonesia, where I expect profits to quadruple."

Altria is Herzog's top U.S. pick because she expects its Philip Morris USA unit will become more aggressive in offering alternative tobacco products this year to keep its No. 1 market position.

Cigarette sales have been declining for four decades, but the U.S. tobacco category is "closer to flat" when smokeless products "be it moist snuff, snus, dissolvables or electronic cigarettes" are included, Herzog said.

She compares the sector to the beverage category, where carbonated soft drinks are fading, but "you have non-carbonated drinks, whether it is water, juice, or tea, and energy brands like Monster or Red Bull."

S&P Capital IQ analyst Esther Kwon has a "strong buy" on Philip Morris because of its rising sales in emerging markets, and a "buy" on Lorillard and Altria. Lorillard, through its Newport brand, dominates the market for menthol cigarettes, but has launched a non-menthol version that is gaining market share, she said.

"We are less positive on Reynolds American, which we have downgraded to a 'hold,'" Kwon said, because its brands are vulnerable to consumers trading down to roll-your-own cigarettes.

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NEW STUDY ON ROLL-YOUR-OWN CIGARETTES

Blog Post by Natalia Gromov
North American Quitline
May 3, 2012

Researchers from the CDC and the Oregon Health Authority are authors of a peer-reviewed article on federal and state revenue losses that have resulted from smokers making their own cigarettes using pipe tobacco instead of roll-your-own tobacco. This practice results in lost revenue since pipe tobacco is taxed at a lower rate than roll-your-own. The study provides federal and state-specific estimates of revenues lost from April 2009 - August 2011.

The article, "Fiscal and Policy Implications of Selling Pipe Tobacco for Roll-Your-Own Cigarettes in the United States," has been published by the online peer-reviewed journal, PLoS ONE and available at <http://dx.plos.org/10.1371/journal.pone.0036487> .

Originally published here: <http://www.naquitline.org/news/90935/New-Study-on-Roll-Your-Own-Cigarettes-.htm>

TOBACCO COMPANIES ADD \$15 MILLION TO FIGHT CANCER TAX

Blog Post by Los Angeles Times
May 7, 2012

Tobacco companies are stepping up their efforts to defeat Proposition 29, the June ballot measure that would hike cigarette taxes by \$1 per pack.

On Friday, the parent companies of Philip Morris USA and R.J. Reynolds Tobacco Co. reported giving more than \$15 million in contributions to the opposition campaign, dubbed Californians Against Out of Control Taxes & Spending.

That gives the firms a war chest of nearly \$40 million to fight the ballot measure, which is projected to raise more than \$850 million a year to be used to fund cancer research, build research facilities and aid anti-smoking programs.

By comparison, supporters of the cigarette tax, including the American Heart Assn., the American Lung Assn., and the American Cancer Society, have raised about \$3.5 million. They are expected to unveil their first ad Tuesday.

The opposition campaign has the support of the California Republican Party, which contributed \$695,000 to the effort, according to state records.

Jennifer Kerns, a party spokeswoman, said the organization spent the money on mailers, email and "other forms of communication" to urge Republicans to vote against Proposition 29.

"It's not unusual to spend resources on member communications," she said. "We are the party of fiscal conservative principles. It's not just about a tobacco tax. It's about a tax, period."

Kerns said the measure would also create "a huge new bureaucracy," referring to a new nine-member committee that would oversee the cigarette tax funds.

Originally published here: <http://latimesblogs.latimes.com/california-politics/2012/05/tobacco-companies-add-another-15-million-to-fight-california-cigarette-tax.html>

PHILIP MORRIS DROPS \$26K INTO GOV. JERRY BROWN'S REELECTION CAMPAIGN

Blog Post by the San Francisco Chronicle
May 7, 2012

Looks like the No on 29 campaign isn't the only California election committee benefiting from the tobacco industry's largesse: Last week, Philip Morris USA contributed \$26,000 to Gov. Jerry Brown's 2014 reelection campaign.

The contribution comes a month before the June primary, when voters will decide whether to raise taxes on cigarettes by \$1-a-pack. Tobacco companies have already poured nearly \$40 million into defeating the measure, which would be the first tax increase on tobacco products in more than a decade.

Big tobacco is certainly not the only special interest group that recently donated to Brown's 2014 account (though it's unclear whether the 74-year-old governor will run again). He's also received a total of \$50,000 recently from two of the world's largest professional service firms, \$26,000 from Visa, Inc., and \$26,000 from the San Manuel Band of Mission Indians, as well as hefty contributions from labor groups, the Wine Institute of California and others.

Still, the contribution is interesting — Brown has not taken a position on the tobacco tax, and is not expected to. And while there's no way to know with certainty why any of those donors cut their checks

when they did, Prop. 29 supporters have been pushing Brown to remove a medical doctor from a state commission because of her ties to the No on 29 campaign.

Dr. La Donna Porter, who stars in the opposition's recent advertisements, sits on the science advisory board that oversees Prop. 65, which aims to protect citizens from dangerous chemicals. Critics are angry that she has joined with tobacco companies and some business groups to oppose the tax, and the Yes on 29 campaign last week created a petition demanding she step down from the board and that the ads be taken off the air.

You can see that No on 29 advertisement here.

Originally published here: <http://blog.sfgate.com/nov05election/2012/05/07/philip-morris-drops-26k-into-gov-jerry-browns-reelection-campaign/>

INDUSTRY RAISES MILLIONS TO FIGHT TOBACCO TAX

By the Associated Press (CA)
The Santa Clarita Valley Signal
May 7, 2012

Cycling legend Lance Armstrong is not accustomed to being the underdog.

But the seven-time Tour de France winner faces a steep climb in his quest to raise tobacco taxes in California to fund cancer research.

If voters approve the tax measure Armstrong is championing in the June primary, smokers in the nation's most populous state will pay an extra \$1 for each pack they buy, raising hundreds of millions of dollars.

The money would go to a new committee that would fund research projects, smoking-reduction programs and tobacco law enforcement. It also would support the infrastructure to fuel that work.

But higher taxes on cigarettes and other tobacco products could mean huge losses for Philip Morris USA, RJ Reynolds and the other major tobacco companies, which are bankrolling the campaign against Proposition 29. The industry calls it a badly flawed measure that will force California taxpayers to pay for a bloated bureaucracy that could send research dollars out of state.

The tobacco companies and anti-tax groups that oppose the initiative had raised nearly \$39.8 million as of May 7, while Armstrong and his supporters had raised \$4.9 million.

"It doesn't matter how much you support the tobacco companies' right to do business; they're on the wrong side of this," Armstrong said in an interview with The Associated Press. "We're still losing hundreds of thousands of Americans every year to cancer. On the one hand, that can be very demoralizing. But for me it's very motivating."

Armstrong beat testicular cancer that had spread to his brain and lungs more than a decade ago. Since then, he has thrown himself into anti-smoking campaigns nationwide and served on the President's Cancer Panel.

His Livestrong Foundation contributed \$1.5 million to support the initiative in California, one of just three states that have not raised taxes on tobacco since 2000.

The independent Legislative Analyst's Office says Proposition 29 would generate about \$735 million a year in revenue if voters approve it. That would be in addition to fees already collected through the state's existing 25-cent tobacco tax, which raised \$298 million in the last fiscal year for cancer research.

Armstrong says more money is needed for the campaign and has made brief public appearances in the state to support the ballot initiative, named the California Cancer Research Act.

Mike Genest, a former state finance director, wrote an economic study for the opposition campaign and said voters need to weigh more than just their concerns about cancer.

He said Proposition 29 could pose a future burden on taxpayers if the bureaucracy it creates cannot be supported as cigarette tax revenue declines. He also said it could end up raising millions of dollars yet produce little research that actually develops new cancer treatments.

The measure's supporters say both charges are baseless.

"Voters need to look at how it is actually written and ask, 'Will this thing work correctly, or is this thing going to become another embarrassment to our state?'" said Genest, who served under former Republican Gov. Arnold Schwarzenegger.

In 2006, tobacco companies spent \$66 million to defeat a previous measure that would have created an extra \$2.60-per-pack tax. This time, they are giving their money to Californians Against Out-Of-Control Taxes and Spending, a campaign committee that includes the California Taxpayers Association and some small-business groups.

Proposition 29's critics note that it does not require the money raised to be spent on research in California, so some of that could go to researchers elsewhere.

They also question a provision in the measure that would allow the committee to build or purchase buildings, and say it could lead smokers to seek cigarettes on the black market to avoid the higher taxes. The latest figures from the state Board of Equalization show tobacco tax evasion reduced revenues by an estimated \$276 million in 2005-06.

The centerpiece of the opposition campaign so far is a series of radio and television commercials starring a Central Valley physician who warns that the tax would create "a huge new research bureaucracy with no accountability run by political appointees who can spend our tax dollars out of state."

Anti-smoking groups point out that Dr. LaDonna Porter, the Elk Grove physician featured in the ad, also starred in anti-tobacco tax campaign ads in 2006 and in ads opposing strict regulation of the water pollutant perchlorate.

Schwarzenegger also appointed Porter to a state advisory board charged with identifying toxicants in 2005. A spokesman for Gov. Jerry Brown, Evan Westrup, said the Democratic governor has not yet decided whether to reappoint Porter.

Porter did not immediately return calls seeking comment, but in a statement provided by the campaign said she got involved as an "unpaid volunteer."

"I have not and will not be compensated in any way," she said. "Between now and the election in June, I will continue to join with others who oppose Prop. 29 because of the many flaws it contains."

Chris Lehman, campaign manager for the Yes on Prop 29 campaign, said the tobacco industry's critiques were an attempt to obscure its true motives.

"This is going to cost the tobacco industry about a billion dollars in sales, and that's why they're so unhappy about it," said Stanton Glantz, a tobacco researcher who directs the Center for Tobacco Control Research and Education at the University of California, San Francisco. "Prop. 29 will keep money in the state and create jobs and economic activity."

With less than a month before the primary, many voters have yet to make up their minds, said Dean Bonner, survey project manager for the Public Policy Institute of California.

The institute's March poll found 67 percent of likely voters approved of the measure, but Bonner warned that could change, especially since primary elections tend to draw a higher percentage of party loyalists to the polls. Even so, he said ballot measures have historically passed at higher rates during primaries, as opposed to general elections.

"Taxes on things like cigarettes or alcohol tend to garner a decent amount of support generally, but overall this campaign hasn't been that prominent, so the ads may be able to sway people on this," Bonner said.

Armstrong and a coalition of anti-smoking groups, including the American Cancer Society, American Lung Association, American Heart Association and California Medical Association, do not have the money to fully counter the industry's TV and radio campaign. In the final month before the primary, they plan to hold community events throughout the state featuring cancer survivors and caregivers.

"I was not raised to back down from a fight, and this is the fight of millions of people," Armstrong said.

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