



A 61-CENT FEDERAL CIGARETTE TAX INCREASE WILL NOT HURT U.S. TOBACCO FARMERS OR CIGARETTE FACTORY WORKERS

Increasing the federal cigarette tax rate by 61 cents per pack would reduce U.S. cigarette pack sales by less than ten percent.¹ Because of U.S. cigarette and tobacco leaf exports and other factors, however, those pack sales declines would have a smaller impact on the overall demand for American-made cigarettes or U.S. tobacco leaf. On the other hand, cigarette tax increases provide enormous benefits to everyone, including U.S. farmers and cigarette industry workers.

U.S. Smoking Declines Have a Relatively Small Impact on the Overall Global Demand for American-Made Cigarettes and U.S. Tobacco Leaf

U.S. smoking and pack sale declines caused by a federal cigarette tax increase would have no impact at all on that part of the overall demand for American-made cigarettes and American-grown tobacco leaf that comes from exports and foreign sales. More specifically:

- U.S. smoking declines prompted by a federal cigarette tax increase have no impact on the sales of American-grown leaf to foreign cigarette manufacturers, which currently account for more than 70 percent of annual sales of U.S. burley and more than 40 percent of all U.S. flue-cured sold each year (the two main types of tobacco in American-made cigarettes).²
- U.S. smoking declines from a federal tax increase have no impact on the more than 15 percent of all American-made cigarettes (which contain American-grown leaf) that are exported for sale overseas or otherwise sold free of federal cigarette taxes.³

Taking all these factors together, the less than 10 percent decline in U.S. smoking prompted by a 61-cent per pack tax increase would reduce the demand for American-made cigarettes by only about eight percent, would reduce the total demand for U.S. burley tobacco leaf by less than 2.5 percent, and would reduce the total demand for U.S. flue-cured leaf by less than 5 percent.⁴

Other Factors Have Much Larger Impacts on U.S. Tobacco Farmers and U.S. Cigarette Factory Workers than U.S. Smoking Declines

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 Similarly, from 1982 to 1996, U.S. cigarette manufacturing employment dropped from 58,000 to just over 31,000 (a more than 45 percent decline) despite the fact that total U.S. cigarette production increased by almost nine percent.⁵ Between 2002 and 2005, total U.S. cigarette production declined by 2.2 percent, but the total number of people employed in that production decreased much more sharply, by more than 16 percent (from almost 22,500 to only about 18,800).⁶ Similarly, the 2005 buyout of the tobacco support program has sharply reduced the number of tobacco farmers in the United States, accelerating the long-standing shift from small, family farms to large agribusinesses.⁷

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

¹ At the same time, the 61-cent increase would shrink the number of current youth smokers by more than 312,000, and save more than 896,000 people in the United States from dying from smoking. [Campaign for Tobacco-Free Kids factsheet, *Public Health Benefits and Healthcare Cost Savings from a 61-cent Federal Cigarette Tax Increase*, <http://tobaccofreekids.org/research/factsheets/pdf/0314.pdf>.]

changes caused by the tobacco farming buyout, technological advances in cigarette manufacturing that reduce labor inputs, foreign competition, the domestic and global cigarette companies' leaf purchasing choices, and the U.S. cigarette companies' move away from cigarette exports.[†]

U.S. Tobacco Farmers Are Not Hurting

From 2000 to 2005, U.S. tobacco farmers and quota holders 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 federal buyout of the U.S. tobacco price support program has been paying U.S. tobacco farmers and tobacco farming quota holders roughly another \$10 billion over ten years.⁸ Compared to these massive payments, any financial impact on U.S. tobacco farmers from a federal cigarette tax increase would be trivial. Moreover, the tobacco program buyout has made U.S. tobacco more price competitive with foreign leaf, thereby increasing both U.S. tobacco leaf exports and domestic sales.⁹

Federal Tobacco Tax Increases Benefit Everyone, Including U.S. Tobacco Farmers and Cigarette Factory Workers

The smoking reductions from a significant federal cigarette tax increase would save lives, reduce human suffering, improve public health, increase worker productivity, reduce public and private health costs, and prevent thousands of kids from becoming addicted adult smokers.¹⁰ As concerned citizens, taxpayers, health consumers, and parents, U.S. tobacco farmers and cigarette factory workers would share in all of those benefits and savings.

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More information is available at http://www.tobaccofreekids.org/facts_issues/fact_sheets/policies/tax/us_federal/.

¹ See, e.g., Joint Committee on Taxation, *Modeling the Federal Revenue Effects of Proposed Changes in Cigarette Excise Taxes*, JCX-101-07, October 19, 2007 [because of changes to smoking rates and pack sales since 2007, a 61-cent increase would now reduce U.S. pack by a somewhat smaller percentage], <http://www.house.gov/jct/x-101-07.pdf>.

² See Economic Research Service (ERS), US Department of Agriculture (USDA), *Tobacco Outlook*, October 24, 2007, <http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1389>. More current data is not readily available because USDA ERS ended its tobacco-related data collection in 2007, after the U.S. tobacco program buyout.

³ Currently available U.S. Alcohol & Tobacco Tax & Trade Bureau (TTB) data shows that taxed pack sales constitute under 85% of total U.S. cigarette production, with the rest exported or otherwise sold free of federal tax. See TTB website, *2008 – Tobacco Products Monthly Statistics*, <http://www.ttb.gov/statistics/08tobstats.shtml>, accessed January 26, 2009. Any tax-related reduction to U.S. consumer purchases of the relatively small amount of cigarettes imported into the United States also has no effect on U.S. cigarette manufacturing, and has only a very small effect on the overall demand for U.S. leaf.

⁴ ERS, USDA, *Tobacco Outlook*, October 24, 2007, supra, and previous editions.

⁵ U.S. Bureau of the Census, *Statistics for Industry Groups and Industries, Annual Survey of Manufactures*, <http://www.census.gov/manufacturing/asm/index.html>. ERS, USDA, supra.

⁶ U.S. Bureau of the Census, *Annual Survey of Manufactures*. ERS, USDA, supra.

⁷ U.S. Bureau of the Census, *Census of Agriculture*, <http://www.agcensus.usda.gov>. The most recent available census is for 2002, showing a more 70% drop in the number of small tobacco farms from 1978 to 2002 while the number of large farms increased by more than 15%. 2007 data, showing further declines, should be available in February 2008.

⁸ USDA Farm Service Agency, *Tobacco Transition Payment Program*, <http://www.fsa.usda.gov/FSA/webapp?area=home&subject=toba&topic=landing>.

⁹ See, e.g., CNBC, *U.S. tobacco farming is bigger than ever*, June 13, 2008.

¹⁰ For more information on all the benefits from increasing the federal cigarette tax, see the Campaign for Tobacco-Free Kids factsheets at: http://www.tobaccofreekids.org/facts_issues/fact_sheets/policies/tax/us_federal/.

[†] In June 2007, for example, Philip Morris announced that it would be closing one of its U.S. tobacco leaf processing plants and shifting even more U.S. cigarette manufacturing to Europe, [Altria, "Altria Group, Inc. Announces Plans by Its Tobacco Subsidiaries to Optimize Worldwide Cigarette Production," Press Release, June 26, 2007]. Since then, Philip Morris USA and Philip Morris International have become separate companies, eliminating PM USA exports to PMI. [Altria, "Altria Group, Inc. Completes Spin-off of Philip Morris International Inc.," Press Release, March 28, 2008.]