



INCREASING FEDERAL CIGARETTE TAXES WILL NOT CREATE A BLACK MARKET IN THE UNITED STATES

In the past, the cigarette companies have tried to block any significant increases to federal or state cigarette taxes by raising the specter of an enormous new black market for cigarettes supplied by cross-border smuggling. Because of substantial recent evidence that the companies have been active participants in cigarette smuggling, the companies may not make this argument as strongly as they have in the past. In any case, their smuggling scare tactics simply do not apply to any conceivable increases to federal cigarette taxes.

Research studies and federal and state experiences with cigarette tax increases firmly establish that raising federal cigarette tax rates would bring in billions of dollars of new federal revenue and significantly reduce smoking, especially among kids and in low-income communities. But there is no evidence that it would not prompt any perceptible increase in cigarette smuggling or other black market activity either between states or over international borders.

Because a federal cigarette tax would apply equally to the cigarette prices in each of the states, it would not increase the cigarette price differences among the states. Accordingly, it would not create any new incentive for interstate smuggling -- and it might even dampen interstate smuggling by reducing the relative or percentage differences in prices from state to state.*

Despite the much higher cigarette prices in the United States than in many other countries, the amount of cigarettes smuggled across U.S. international borders is trivial, accounting for far less than one percent of all cigarettes consumed nationwide. Even a federal cigarette tax increase of one dollar per pack would not significantly change this situation.†

10 Reasons Why Federal Cigarette Tax Increases Will Not Produce A Black Market

1. The vast majority of U.S. smokers are not willing to break the law and seek out black market dealers just to save a little money – especially since reasonably priced legal cigarettes will still be conveniently available to any adult who wants to buy them.
2. U.S. smokers clearly enjoy the convenience of buying cigarettes from readily available legal vendors one pack at a time (roughly 60 percent of all cigarettes are sold in single-pack transactions). U.S. smokers are not likely to switch to much less convenient bulk purchases of smuggled cigarettes from much less readily available black market dealers.
3. Even if U.S. smokers were willing to purchase cigarettes in Mexico or Canada to try to escape higher federal cigarette taxes, over 90 percent of the U.S. population lives so far away from either of the borders that crossing into Mexico or Canada to buy cigarettes simply would not be worth the time or trouble.

* Although interstate cigarette smuggling is only a relatively minor problem, it could be reduced considerably if more states adopted prominent, hard-to-counterfeit tax stamps that specifically and clearly identified all cigarettes that can be legally sold within their borders. Most states already require special tax stamps, but North Carolina, which has a cigarette tax rate of only 45 cents per pack cigarette tax, has none – which is why it serves as the major supplier of cigarettes smuggled into higher-tax states. Michigan had no tax stamp when it increased its cigarette tax from 25 to 75 cents per pack in 1994, and it did experience an increase in smuggling (primarily from North Carolina). But after Michigan introduced a tax stamp in 1998, the smuggling problems faded away and Michigan's cigarette tax revenues increased by roughly twenty percent. Michigan's experience indicates that states that already have effective tax stamps are unlikely to encounter serious interstate smuggling problems if they raise their tobacco taxes. For more information, see Campaign factsheet, *The Michigan Story: Cigarette Tax Increases, New Revenues, and the Value of Tax*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0279.pdf>.

† Taxes placed on cigarettes among the European Union nations range from \$2.00 to more than \$7.00 per pack. [*Tobacco Reporter*, March 2004.]

4. Cigarette smuggling from the United States into Canada became a major problem years ago only when the price differential between Canadian and U.S. cigarettes reached \$2.50 per pack and higher. But even after a significant U.S. federal cigarette tax increase, the retail prices of cigarettes sold in the U.S. states along the Canadian border would in most cases still be comparable to those sold in the nearby Canadian provinces, and in no case would they exceed the cross-border price by anywhere close to \$2.50 per pack.
5. U.S. cigarette prices would also still be considerably less expensive than those sold in many other industrialized nations that have no major smuggling or black market problems.
6. The cigarette companies and their supporters have claimed that sharp increases in U.S. cigarette prices would cause the United States to be “flooded” with cheap black market cigarettes smuggled from China and elsewhere. But U.S. smokers have consistently rejected foreign brands of cigarettes – even when they are the same quality as U.S. brands, cheaper, and legally available – and counterfeit U.S. brands have never been accepted.
7. To protect their own profits, the U.S. cigarette companies would take aggressive steps to stop any smuggling of non-U.S. brands into the United States.
8. Major brand cigarettes made in the United States (the kind U.S. smokers demand) are not currently available in any significant quantity in either Canada or Mexico. For either of these countries to become a source of smuggled cigarettes, the U.S. cigarette companies would have to export large new quantities of American-made cigarettes into Mexico or Canada so that they can then be smuggled back into the U.S. Such a move would be very obvious, and would make the companies’ complicity in any new black market smuggling quite clear (which would contradict their current multimillion-dollar campaigns to rebuild their public image). In addition, the U.S. and state governments have the ability to stop this type of unlawful activity quickly and completely.
9. Because of the U.S. war against illicit drugs and illegal immigrants, the U.S. border with Mexico is among the most closely supervised and heavily policed in the world, making both organized and informal smuggling of cigarettes from Mexico into the U.S. more difficult, risky, and costly.
10. Because of Canada’s past problems with cigarette smuggling, enforcement officials on both sides of the border are much better prepared to stop any future smuggling. Among other anti-smuggling measures, U.S. and Canadian officials have already closed the smuggling route between the countries that was the primary source of smuggled cigarettes (a route through an Indian reservation that straddles the border).

Campaign for Tobacco-Free Kids, June 22, 2011

More information on cigarette smuggling is available at
http://www.tobaccofreekids.org/facts_issues/fact_sheets/policies/smuggling_evasion/.