



## CIGARETTE COMPANY PRICE DISCOUNTS & MARKETING EXPENDITURES ARE INCREASING SMOKING LEVELS, ESPECIALLY AMONG KIDS (But States Can Fight Back By Increasing Their Tobacco Tax Rates)

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According to the most recent information reported by the U.S. government, U.S. cigarette companies spent \$12.5 billion on marketing and promotional expenditures in 2006. That marks an 85.5 percent increase since 1998, when the state tobacco settlements placed some restrictions on tobacco industry marketing.<sup>1</sup> Almost three quarters of these cigarette marketing expenditures, or \$9.2 billion, was spent on price discounts, which makes cigarettes more affordable to kids and increases overall smoking rates.\*

The \$9.2 billion in direct price discounts by the cigarette companies amounts to a reduced cost to smokers of roughly 53 cents per pack, on average, nationwide (with the discounts centered on premium brands, which are especially preferred by youth smokers, with little or no discounts for the cheapest brands). But the situation is actually even worse because the price discounts category does not include the additional price reductions caused by the cigarette companies' discount coupons (\$625.8 million), their retail-value-added expenditures to cover free bonus cigarettes with purchases (\$817.8 million), or their free non-cigarette items with purchases (\$14.6 million); nor does it include promotional allowances to retailers (\$434.2 million) or wholesalers (\$471.2 million), part of which are passed along to smokers via reduced prices. Even if we assume that only 10 percent of the promotional allowances are reflected in lower pack prices and do not associate any price reductions from the companies giving away free non-cigarette items with certain pack purchases, these additional marketing expenditures reduce the overall cost of cigarettes purchased nationwide by an additional \$1.2 billion or roughly 7 cents per pack.

Adding it all together, the at least 60 cents per pack discount caused by annual cigarette company marketing expenditures constitutes a 12 percent price cut, which translates into a 4.8 percent or 840 million increase in the number of packs sold and smoked over a year, and at least 7.8 percent increase in youth smoking, or 270,000 more youth smokers nationwide.

### **What States Can Do**

These smoking increases dramatically underscore the need for states to counter the cigarette companies' increased marketing expenditures and the related 60-cent per pack cigarette price reductions by increasing state tobacco tax rates. While all states should increase their cigarette tax rates to counter the cigarette companies' price reductions, those eight lowest-tax states with current cigarette tax rates less than the 60 cents per pack are not coming close to offsetting the impact from just that portion of the cigarette companies marketing on increased smoking, especially among kids.<sup>†</sup>

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\* Economic research on cigarette price and tax changes and the experiences of states that have increased their cigarette tax rates shows that a ten percent increase in cigarette prices will reduce total consumption (or packs smoked) by about four percent, and decrease the number of youth smokers by about 6.5 percent. Similarly, a 10 percent decrease in cigarette prices will increase total consumption by about four percent and increase the number of youth smokers by about 6.5 percent. For more information, and references to some of the related research studies, see the Campaign Factsheet, *Raising Cigarette Taxes Reduces Smoking, Especially Among Kids (and the Cigarette Companies Know It)*, <http://tobaccofreekids.org/research/factsheets/pdf/0146.pdf>.

† To counter the cigarette companies' massive marketing expenditures, states should also invest in effective programs to prevent and reduce tobacco use. For more on the benefits and savings from such state investments, see the Campaign's website at <http://tobaccofreekids.org/research/factsheets/index.php?CategoryID=6>.

The following table shows the new revenues, cost savings, and public health benefits these states would obtain simply by levying excise taxes on cigarettes that match the cigarette companies' 60-cent price discount per pack.

STATE CIGARETTE TAX INCREASES TO COUNTER CIGARETTE COMPANY PRICE DISCOUNTS								
State	Current State Tax Rate	State Tax Increase to Offset Cigarette Companies' 60¢/pack Price Cuts	Health Benefits To Each State From Proposed Increase					
			New State Annual Revenue (millions)	Kids Alive Today Saved From Becoming Adult Smokers	Kids Alive Today Saved From Premature Smoking Death	Current Adult Smokers Prompted To Quit	Adult Smokers Saved From Early Smoking Death	Long-Term Health Care Savings From Smoking Declines (millions)
Alabama	42.5	17.5	\$41.9	12,900	4,100	4,700	1,200	\$270.4
Georgia	37	23.0	\$91.9	18,500	5,900	11,400	3,000	\$432.1
Louisiana	36	24.0	\$67.4	11,000	3,500	5,500	1,400	\$244.8
Missouri	17	43.0	\$154.6	26,100	8,300	17,100	4,500	\$619.2
N. Carolina	45	15.0	\$62.2	12,700	4,000	7,800	2,000	\$296.4
N. Dakota	44	16.0	\$4.9	800	200	500	100	\$18.8
S. Carolina	7	53.0	\$116.1	25,000	8,000	13,700	3,600	\$567.7
Virginia	30	30.0	\$115.9	19,700	6,300	10,300	2,700	\$442.6

ID and WV have cigarette tax rates only slightly below 60 cents per pack discount, but are not included in the table because it is difficult to estimate public health benefits from such small tax increases. These states would, however, still see substantial increases in revenue by raising their rate just to 60 cents. Table projections are conservative, assuming that the revenue and public health effects of the price increases caused by the rate increases will be dampened by some increased efforts by smokers to evade the new, increased tax rates (e.g., by purchasing cigarettes from nearby lower-tax jurisdictions or over the Internet). Long-term savings accrue over the lifetimes of the youths and adults who quit smoking or do not start because of the cigarette tax increases. Additional public health benefits would accrue from some smokers who do not quit but would reduce their smoking because of the cigarette tax increases.

Even after raising their rates to 60 cents per pack, these states would still be well below the average state cigarette tax rate nationwide (currently \$1.32 per pack). In addition, the U.S. Centers for Disease Control and Prevention (CDC) estimates that nationwide the average cost per pack of cigarettes sold for annual smoking-caused health care costs and lost productivity totals \$10.28 per pack.<sup>2</sup> Indeed, tax increases beyond 60 cents per pack, coupled with investments in tobacco prevention, are necessary to fully counter cigarette company marketing, effectively reduce smoking among kids and adults, and raise much-needed revenue to balance budgets and fund vital programs, such as expanded tobacco prevention efforts.

*Campaign for Tobacco-Free Kids, August 18, 2009 / Eric Lindblom*

**For table sources and more information on tobacco taxes and the benefits from increasing them, see the Campaign's website at: <http://www.tobaccofreekids.org/research/factsheets/index.php?CategoryID=18>**

<sup>1</sup> U.S. Federal Trade Commission (FTC), *Cigarette Report for 2006, 2009*, <http://ftc.gov/os/2009/08/090812cigarettereport.pdf>. Data for top 5 manufacturers only.

<sup>2</sup> CDC, *Sustaining State Programs for Tobacco Control: Data Highlights 2006* [and underlying CDC data and estimates], <http://www.cdc.gov/tobacco/datahighlights/index.htm>. CDC, "Annual Smoking-Attributable Mortality, Years of Potential Life Lost, and Economic Costs—United States 1997-2001," *Morbidity and Mortality Weekly Report* 54(25):625-628, July 1, 2005, <http://www.cdc.gov/mmwr/preview/mmwrhtml/mm5425a1.htm>.