



Core-Mark®

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February 11, 2014

Chair Phil Barnhart
Vice Chair Jules Bailey
Vice Chair Vicki Berger
Representative Cliff Bentz
Representative Jason Conger

Representative John Davis
Representative Sara Gesler
Representative Tobias Read
Representative Jessica Vega Pederson

House Committee on Revenue
900 Court St. NE, Room 143
Salem, OR 97301

Dear Chair Barnhart, Vice-Chair Bailey, Vice Chair Berger and Committee Members:

Core-Mark International, Inc., Portland Division is a broad line distributor of supplies and services to the convenience retail industry. In this capacity we employ approximately 200 Oregonians and also manage our Grants Pass distribution center which employs approximately 100 Oregonians. Aggregately, the two distribution centers supply approximately 950 convenience stores. In 2013 the two divisions collected over \$70 million in cigarette stamp tax and another \$17 million in tobacco and cigar taxes for the state of Oregon. This \$87 million of the total \$255 million of revenue represents 34% of the total revenue collected. I am also a board member of the Oregon Neighborhood Store Association (ONSA) which provides legislative and regulatory representation for Oregon's 2,500 smaller, mostly family owned and operated convenience food stores.

As a responsible licensed distributor, Core Mark opposes HB 4129 which increases the current cigarette tax per carton by 215% and increases OTP products by 25%.

1. **Higher tobacco taxes do not significantly reduce consumption, but rather higher taxes drive customers to seek lower priced goods and thus to avoid/evade taxes.**

The State of Oregon currently assesses a state tax of \$13.10 per carton while the State of Washington assesses a state tax of \$30.25 per carton. It is estimated that Washington fails to collect excise taxes and sales tax on 16 million cartons annually.

Approximately 4.7 million of these cartons are purchased in the state of Oregon. That leaves 11.3 million cartons that were purchased primarily at tribal non-taxed reservations, other neighboring states, internet or black market.

Should HB 4129 pass, the gap between the Washington and the Oregon tax per pack will be reduced from \$1.72 per pack to \$0.23 per pack. The narrowing of the gap will significantly reduce the incentive for Washingtonians to cross the border to purchase Oregon stamped cigarettes and effectively eliminate over \$60 million dollars of revenue for the state.

In addition, HB 4129 proposes an increase in tobacco, cigars and other tobacco products that will place Oregon retailers at a price disadvantage with regard to neighboring states. HB 4129 would raise the tax on moist tobacco (Copenhagen, Skoal, Kodiak etc.), which drives the category, from a rate of \$1.78 to a rate of \$2.68 per unit. Washington has a rate of \$2.53 while Idaho, Nevada and California have a tax rate per unit of \$1.12, \$0.84 and \$0.83 respectively. As a result, the rate increase is more likely to decrease the revenue stream rather than increase it as consumers will continue to seek the most competitive price product available

2. **Higher tobacco taxes significantly increase the probability for consumer “casual” smuggling and “commercial” smuggling.**

As previously noted, higher cigarette and tobacco taxation does not significantly reduce consumption. Consumers, who are looking for a lower cost of goods and have determined that the costs of travel associated to seek that lower price is beneficial, are termed “casual” smugglers. Casual smugglers typically are individual consumers whose intent is to save money by purchasing small volumes for personal use. Casual smugglers rely on the social acceptance that tax evasion is tolerable if it only involves a single entity purchasing product for their own use and without intent to redistribute. But as noted earlier, the State of Washington loses 4.7 million cartons annually through casual smuggling to the State of Oregon which reduces their excise tax revenue by greater than \$60 million annually.

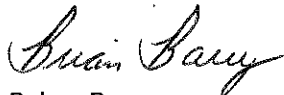
When the disparity of excise tax becomes significant between neighboring states, “commercial” smuggling becomes a more prevalent issue as the economic benefit exceeds the associated risks. Commercial smuggling occurs when the intent is to evade payment of high tobacco taxes. This type of activity usually involves a criminal organization moving large volumes with the intent of commercial sale. Statistical evidence indicates that states which have high cigarette excise taxes experience a substantially greater degree of smuggling than those with moderate taxes. According to the Tax Foundation, New York with a cigarette tax stamp value of \$4.35 has a consumption smuggled rate of 60.9%. Washington with a cigarette tax stamp value of \$3.03 has a consumption smuggled rate 48.5%. Wisconsin with a cigarette tax stamp

Sources: Mackinac Center for Public Policy, *Cigarette Taxes and Smuggling 2010*

value of \$2.52 has a consumption smuggled rate 36.4%. Conversely, Oregon at a tax rate of \$1.30, experiences a consumption smuggled rate of 15.1%. If enacted, HB 4129 would raise the cigarette tax rate to \$2.81 therefore it is not unreasonable to assume that the smuggling rate would climb to at least 40%. With the difference in tax per carton between Idaho's rate of \$5.70 and Oregon's proposed rate of \$28.10 a criminal using a small truck can transport two hundred cases (6,000 cartons) across the border, split the tax with a consumer and realize a profit of \$67,200. If said criminal or criminal organization wanted to rent a tractor and 53' trailer, the ones seen commonly traveling up and down I-5 transporting product, he could do so at a cost of less than \$700 a week. A rig this size can hold 1,900 cases of product or 57,000 cartons which would mean that by using the same profit markup variables as before the dollar profit from selling the illegal product would be \$638,400! This probability is not farfetched; it is a well-documented issue in the Northeast and Midwest.

I strongly oppose HB 4129. The bill's substantial increase in cigarette and tobacco taxation will adversely affect state revenue streams in the long term while creating boundless potential for encouraging criminal profiteering.

Respectfully submitted,



Brian Barry

President, Portland Division
Core-Mark International, Inc.