



May 8, 2017

House Committee on Revenue re: HB 2056

Dear Chair Barnhart, Vice Chairs Bentz and Smith Warner, Committee Members:

Core Mark International delivers and services the convenience retail industry of Oregon. Out of our Milwaukie, Oregon warehouse we employ nearly 250 Oregonians. During the course of 2016, our division purchased \$74,419,800 in Oregon tax stamps, which is over a third of the cigarette taxes collected in the entire state. Additionally, we collected \$18,530,084 in OTP taxes; \$1,965,550 came from cigar taxation while \$16,564,534 was collected from taxes on tobacco products. Our business, and our industry as a whole, is dependent on a level playing field when it comes to tobacco and cigarette taxation. Core Mark is opposed to HB 2056. This increase is a losing proposition for us all.

As we witnessed with Oregon's last tobacco and cigarette stamp tax increase, higher cigarette and tobacco taxation do not reduce usage. Consumers seeking lower costs participate in "casual smuggling" to seek out the lowest cost for their own personal use. Currently, Washington loses out on 41 million packs of cigarettes annually to Oregon retailers due to the tax base difference of \$1.705 per pack. As the tax differential flattens, Oregon risks not only losing out on these packs that are already a source of revenue to the state but will lose even more packs to surrounding states with lower tax rates.

A more severe consequence of increased cigarette taxes and the impact to tax differentials stems from the reality of commercial cigarette smuggling. On a small criminal scale, a Volkswagen Jetta can hold 3000 packs of cigarettes, if the opportunity dollars are high enough a casual smuggler may turn criminal smuggler in order to make available dollars from this criminal act. As the truck scale increases, the crime worsens as does the negative impact to Oregon's base of legal, taxable packs. A criminal driving a class B parcel truck could smuggle 111,000 packs of non-Oregon stamped cigarettes into Oregon. A 53' trailer, which is a common sight on our interstate highways and freeways every day, could contain 266,400 packs of cigarettes. Based on our current tax rate, this would represent a revenue loss of \$351,648 to Oregon. If Oregon's tax rate were to increase, we will see ever-decreasing legal packs subject to Oregon tax, as is so dramatically evident in Washington. Additionally, the frequency of commercial smuggling and criminal activities associated with this smuggling will also increase proportionately.

As the cost of packs and cans of tobacco increase in street value, the safety of all drivers transporting legally taxed and paid product becomes a greater concern. A proposed proliferation of these costs, as HB 2056 is proposing, will put Oregonians in greater danger as criminal smugglers will seek out all opportunities to capture these items that have grown in cost.

As a responsible, tax abiding wholesaler of cigarette and tobacco products, Core Mark strongly opposes HB 2056. The bills planned increase to cigarette and tobacco taxation will have a negative impact to Oregon's long term revenue streams and will create an environment which rewards smuggling and other criminal activities.

Respectfully,

Mike Hannon

President, Portland Division of Core Mark International, Inc.