

**From:** [John Hill](#)  
**To:** [LRO](#)  
**Subject:** HB-2158 Testimony  
**Date:** Monday, April 8, 2019 6:39:20 PM  
**Attachments:** [HB-2158 and 2270 Cigar Presentation Testimony.pdf](#)

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Hello-

I would like to submit the following presentation for public testimony on HB-2158. In short, this bill neither provides additional Revenue for Oregon, but also is not supportive of the long-term strategy to promote a Smoke-Free Oregon. Revenues will be reduced with no impact to premium cigar enthusiasts consumption- making this a lose/lose situation. I say lose/lose because lower revenue means lower funds to support those programs that support a Smoke-Free Oregon; like the Oregon Tobacco Education Program.

Regards,

John Hill  
Oregon Cigar Association

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# OREGON'S REVENUE CHALLENGE WITH TOBACCO

A review on the impact of HB 2158 or HB 2270

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# OREGON'S REVENUE GOAL

- ▶ **2 Separate House Bills to propose the implantation of additional tax revenues**
  - ▶ **HB 2158 - Removes premium cigar cap in favor of 65% of wholesale per premium cigar tax rate**
  - ▶ **HB 2270 – Increase in cigarette tax to 10¢ per cigarette (\$2.00/pack). Also removes the cigar 50¢ in favor of 65% of wholesale per premium cigar**

**REMOVING THE 50¢ TAX CAP FROM PREMIUM  
CIGARS WILL REDUCE REVENUE WITHOUT  
CHANGING BEHAVIORS**



# REVENUE

- ▶ Raising premium cigar taxes will result in consumers flocking to other markets
  - ▶ WA State has a 65¢ cap
  - ▶ ID State has a 40% of wholesale tax
  - ▶ 32% of Oregon's premium cigar enthusiasts live within 30 miles of these borders




# ONLINE CIGAR SALES

- ▶ Increasing tax rates will drive additional Oregonians to online markets both legal and illicit where there is no tax
  - ▶ Oregon has no authority over interstate commerce
  - ▶ Online sales now have to report sales tax only to states that have sales tax
  - ▶ Most cigar enthusiasts do not report their online purchases



# HISTORY OF THE 50¢ TAX CAP

- ▶ Measure 44 in 1996 saw a reduction of OTP revenue by over \$1M when it raised cigar taxes from 45% to 65% of wholesale
  - ▶ The 50¢ cap brought revenue back into Oregon with over \$1M+ in its first year and an additional increase to OTP revenue by 30% the following year.
    - ▶ WA State premium cigar tax was 129% in 1996. It is now capped at 65¢
    - ▶ On-line presence was less prevalent in 1996
- 

# HB-2158 OR HB-2270 DOES NOT SUPPORT A SMOKE-FREE OREGON

**This does not modify premium cigar consumption behavior; only premium cigar purchasing behavior**

A decorative graphic consisting of several parallel white lines of varying lengths, slanted upwards from left to right, located in the bottom right corner of the slide.



# HB-2158 OR HB-2270 DOES NOT SUPPORT A SMOKE-FREE OREGON

- ▶ Removing the 50¢ tax cap from premium cigars will REDUCE funding for the following benefactors:
  - ▶ Transportation for senior citizens
  - ▶ Health care for the poor
  - ▶ Anti-tobacco education programs



# BOTTOM LINE

- ▶ **Passing HB-2270 as is, or passing HB-2158 will:**
  - ▶ **Reduce State tax revenue by over \$1M+/year**
  - ▶ **Will not impact premium cigar consumption behavior.**
  - ▶ **Negatively impacts the long-term goal of a Smoke-Free Oregon.**



# HB-2270 IGNORES PRODUCT DIFFERENCES



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A premium cigar is 100% all-natural organic tobacco leaf varietal that contains no additives or preservatives. It is 100% man-made by “Mom & Pop” tobacco farms.

Cigarettes and machine-made mass-produced cigarillos are not made from the same organic varietal tobacco, contain additives, preservatives and other chemical compounds

# EQUATING PREMIUM CIGARS TO CIGARETTES AND CIGARILLOS IS LIKE COMPARING WATER TO COKE

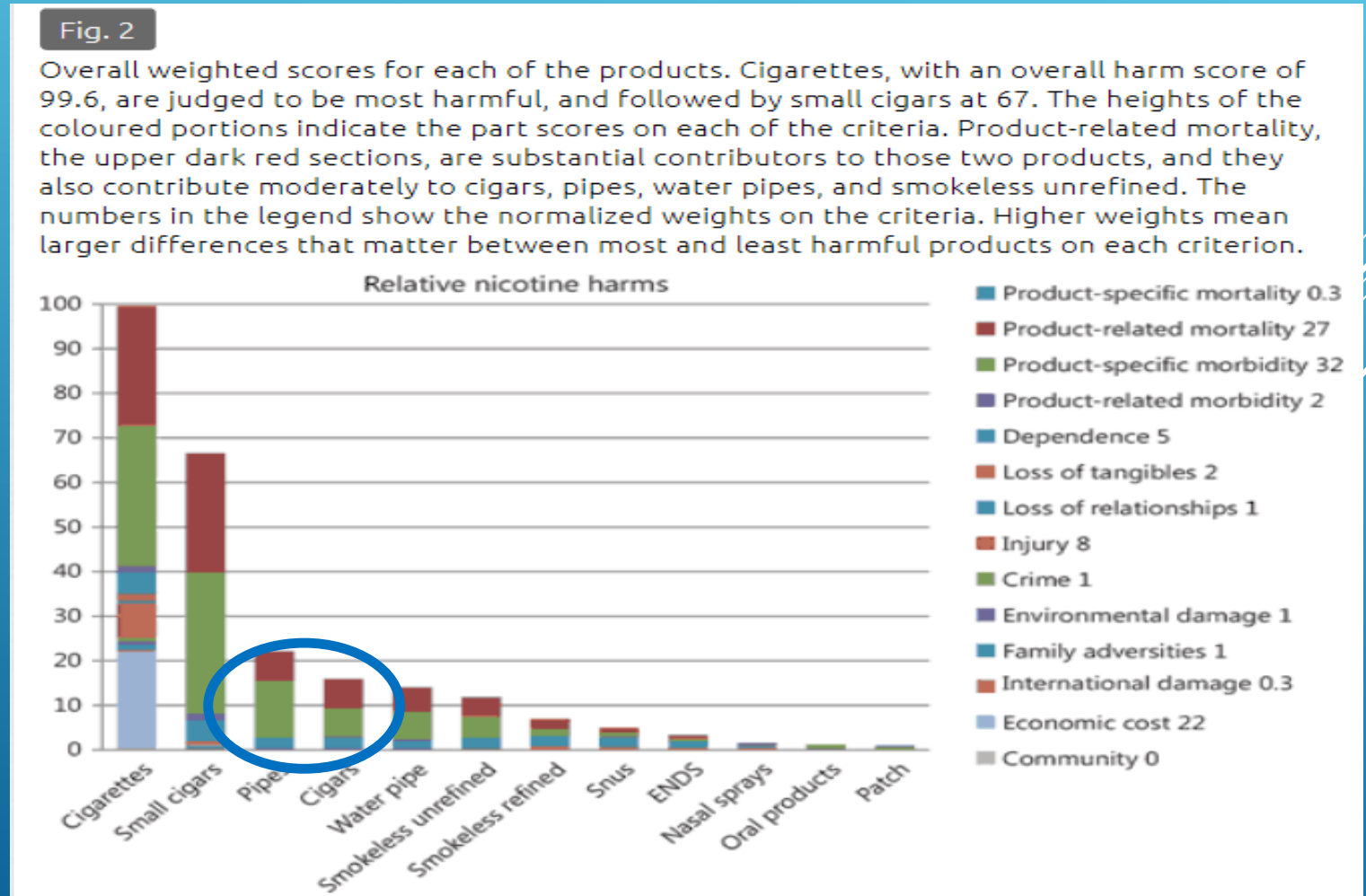


Bottled water is 100% all-natural organic that contains no additives or preservatives.

Coke products do contain mostly water, but also contain additives, preservatives and other chemical compounds

# HB-2270 IGNORES PRODUCT RISK DIFFERENCES

- ▶ Premium Cigars are NOT cigarettes or mass marketed cigarillos.
- ▶ Health impacts are drastically lower (not eliminated) for Premium Cigars and Pipe Tobacco



Graph taken from FDA Family Smoking Prevention and Tobacco Control Act – Ref 76

See additional health impact statements and reports in Backup #6 - 11

# PREMIUM CIGAR ACCESS WITH CHILDREN

Kids age 12 – 18 do not consume premium cigars, no matter what the price range.

**Table 2. Prevalence of Tobacco Use According to Product Type, Use Category, and Age Group.\***

Category of Tobacco Use	Any Tobacco	Cigarettes	Any Cigar†	E-Cigarettes	Traditional Cigars‡	Cigarillos †	Hookah	Smokeless Tobacco‡	Filtered Cigars †	Pipe Tobacco	Snus Pouches	Dissolvable Tobacco
	percent (95% CI)											
<b>Daily use††</b>												
Youths overall	1.6 (1.3–1.9)	0.9 (0.7–1.1)	0.1 (0.1–0.2)	0.2 (0.1–0.2)	¶	0.1 (0.1–0.2)	0.1 (0.1–0.2)	0.4 (0.3–0.5)	¶	¶	¶	¶
12–14 Yr	0.2 (0.1–0.4)	¶	¶	¶	¶	¶	¶	¶	¶	¶	¶	¶
15–17 Yr	2.9 (2.5–3.5)	1.7 (1.4–2.0)	0.2 (0.1–0.3)	0.3 (0.2–0.5)	¶	0.1 (0.1–0.3)	¶	0.7 (0.5–1.0)	¶	¶	¶	¶
Adults overall	19.7 (18.1–20.3)	16.0 (15.4–16.5)	0.9 (0.8–1.0)	1.2 (1.1–1.3)	0.3 (0.2–0.3)	0.5 (0.4–0.5)	0.1 (0.1–0.1)	1.8 (1.6–1.9)	0.4 (0.3–0.5)	0.1 (0.1–0.1)	0.1 (0.1–0.2)	¶
18–24 Yr	18.2 (17.2–19.3)	14.7 (13.8–15.7)	1.1 (1.0–1.4)	1.3 (1.1–1.6)	0.2 (0.1–0.3)	1.0 (0.8–1.2)	0.4 (0.3–0.5)	2.1 (1.8–2.5)	0.1 (0.1–0.2)	0.1 (0.1–0.2)	0.2 (0.1–0.3)	¶
≥25 Yr	19.9 (19.3–20.5)	16.2 (15.6–16.7)	0.9 (0.8–1.0)	1.2 (1.0–1.3)	0.3 (0.2–0.4)	0.4 (0.3–0.4)	0.0 (0.0–0.1)	1.7 (1.6–1.9)	0.4 (0.3–0.5)	0.1 (0.1–0.1)	0.1 (0.1–0.2)	¶

\* Data were collected from September 12, 2013, through December 15, 2014. The columns in the table are not mutually exclusive; participants who used one product may also have used another product. Percentages were weighted to the U.S. adult and youth populations, and confidence intervals were estimated with the method of balanced, repeated replications. Complete data about every type of tobacco product were required to define nonuse of any tobacco; similarly, complete data about every type of cigar were required to define nonuse of any cigar, and complete data about smokeless tobacco and snus pouches were required to define nonuse of smokeless tobacco including snus pouches. For the descriptions of the types of tobacco products that were provided to participants, see the Supplementary Appendix.

† Excluded were those who reported using cigars as blunts (i.e., cigars that have tobacco removed and replaced with marijuana) and did not identify as cigar users.

‡ Data are for smokeless tobacco including snus pouches.

§ Data are for participants who had ever used the product, even one or two puffs (cigarettes) or one or two times (other products).

¶ The estimate was suppressed owing to a relative standard error greater than 30%.

‡ Data are for participants who had smoked or used the product (even one or two times) in the previous 30 days.

\*\* For each tobacco product other than cigarettes and hookah, current use indicates that the participant now smokes or uses the product every day or some days. For cigarettes, the “current regular use” category was used, which indicates that the participant has smoked at least 100 cigarettes in his or her lifetime and now smokes every day or some days. For hookah, current use indicates that the participant now uses the product every day, some days, usually weekly, or usually monthly.

†† Daily use indicates that the participant now smokes or uses the product every day. Daily use of any tobacco, any cigar, and smokeless tobacco including snus pouches reflects only those who used at least one of the products that make up the combination group every day.

\*The New England Journal of Science and Medicine; “Tobacco-Product Use by Adults and Youths in the United States in 2013 and 2014” Kasza, Ambrose, Conway et al; 1/26/2017

# BOTTOM LINE

- ▶ Premium Cigars are not cigarettes or mass produced small cigars (cigarillos)
  - ▶ Significantly smaller risk profile
  - ▶ Significantly different product components- even though they are both forms of tobacco
    - ▶ Bottled Water –vs- Coke
  - ▶ Significantly smaller health cost impacts
  - ▶ Significantly different consumption and buying characteristics
- ▶ Treating premium cigars like cigarettes or mass produced small cigars results in inefficient taxation, regulation and unintended counter-support of a Smoke-Free Oregon

THANK YOU





BACKUP\DATA SLIDES



# CURRENT TOBACCO TAX REVENUE TREND

- Graphs show that over the years the tax has increased on cigars (both State and Fed (SCHIP)) forcing folks to purchase more mail order outside of Oregon (extreme price sensitivity). Raising taxes further will result in further negative returns

## Federal Tobacco Tax Revenues Are Declining After 2009 Tax Hike

Federal Tobacco Excise Tax Revenue, 2000-2025, Billions of Dollars

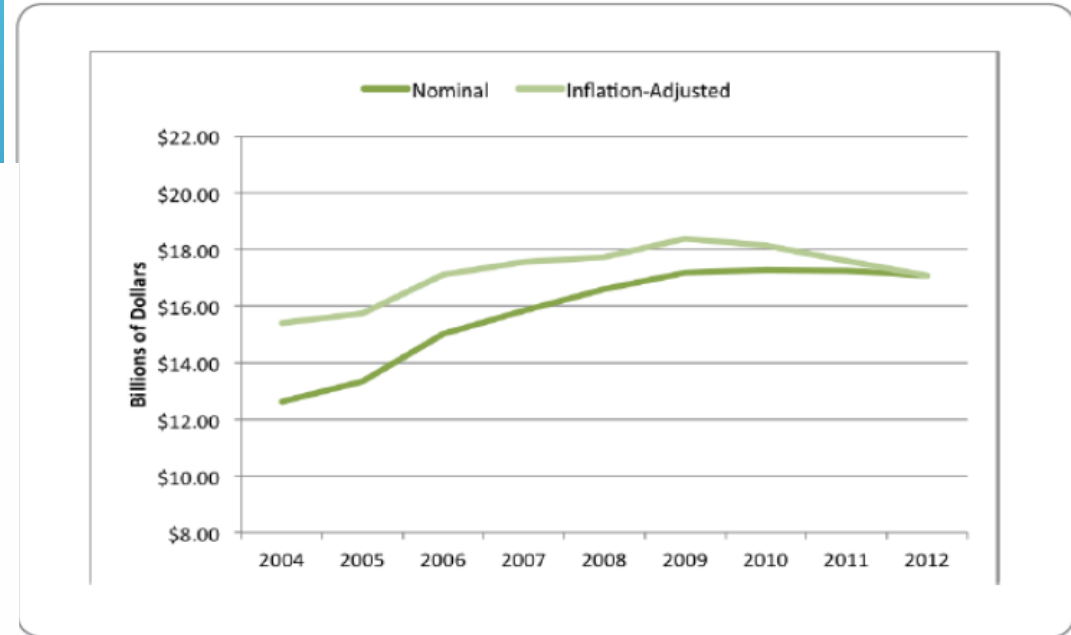


Source: Office of Management and Budget, Table 2.4; Congressional Budget Office, Updated Budget Projections, March 2015  
Note: Data for 2000-2014 (blue) from OMB historical tables. Projections for 2015-2025 (pink) from CBO baseline. Taxes were increased mid-year in 2009.

TAX FOUNDATION

@TaxFoundation

## Total State Tobacco Tax Revenues, 2004-2012



Source: Author's calculations of data from the U.S. Census Bureau, Annual Survey of State Government Tax Collectors

# IMPACT OF REMOVAL OF CIGAR TAX CAP

- Analysis of total population along all Oregon border towns less than 30 miles to adjacent States reveals additional potential of further revenue degeneration by as much as 32%\*
- On-line purchases outside of Oregon would also significantly increase
  - USPS doesn't report tobacco sales to States
  - On-line stores only required to add State sales tax and not tobacco tax
- Oregon has no authority over interstate commerce.



\*Handout exhibit 1

# IMPACT OF REMOVAL OF CIGAR TAX CAP (CONT)

- ▶ The steady decline in tobacco consumption since the 1960s makes tobacco tax revenue an unstable revenue source. Administration plans to fund pre-kindergarten education with a federal cigarette tax increase are not sustainable in the long term, because revenues are projected to decline, while costs will grow.
- ▶ The bills potentially create an anti-small business image of Oregon.
  - ▶ The increased tax will drive away many customers of the 140+ retailers that sell premium cigars.
  - ▶ **NOTE: the tax will not reduce the number of premium cigar consumers, it will only drive them to seek lower prices outside of Oregon (ie- promoting current trend to continue. No impact to premium cigar consumption, only premium cigar buying behavior)**
- ▶ Removing the 50¢ cap hurts benefactors of this tax program by reducing OTP revenue
  - ▶ Transportation for senior citizens
  - ▶ Health care for the poor
  - ▶ Anti-tobacco education programs



# IMPACT OF EVER-INCREASING TOBACCO TAXES

- ▶ The steady decline in tobacco consumption since the 1960s makes tobacco tax revenue an unstable revenue source. Administration plans to fund pre-kindergarten education with a federal cigarette tax increase are not sustainable in the long term, because revenues are projected to decline, while costs will grow.
- ▶ Analysis from TaxFoundation.org finds The high tax burden on tobacco results in de facto prohibition of the products, bringing all the undesirable outcomes associated with alcohol prohibition in the 1920s.
  - ▶ ( <https://taxfoundation.org/tobacco-taxation-and-unintended-consequences-us-senate-hearing-tobacco-taxes-owed-avoided-and-evaded/> )



# RISK IMPACT CONTINUED

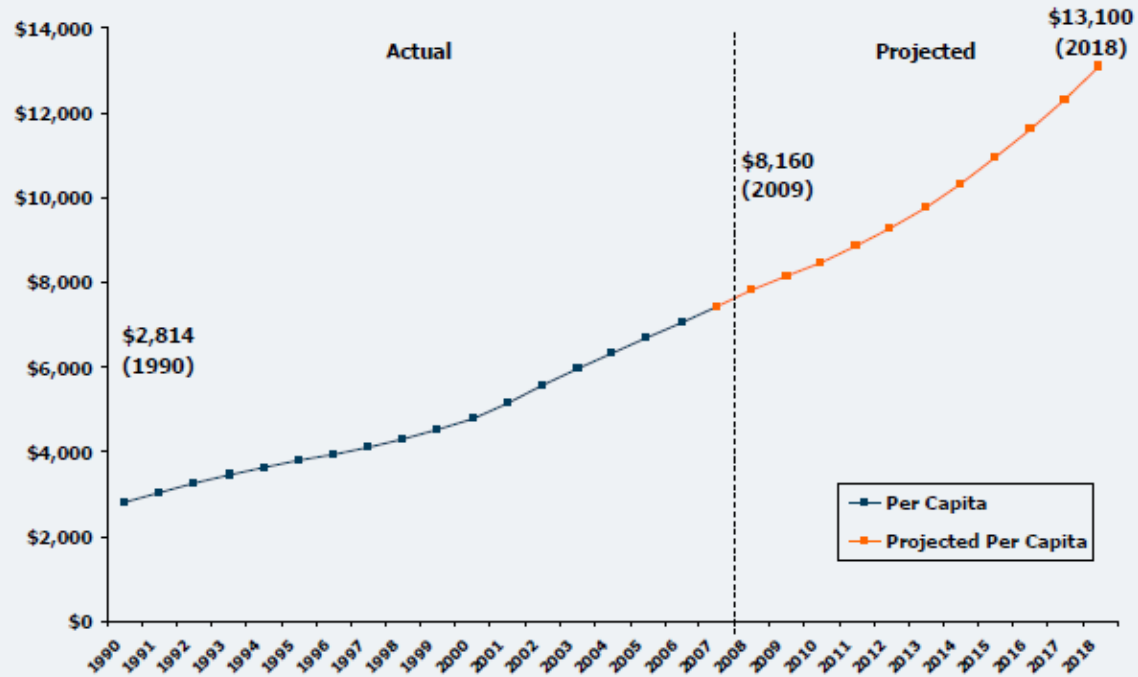
- ▶ Surgeon General reported in 2014 that, "[c]ompared with persons who smoke cigarettes, smokers who smoke pipes or cigars exclusively have a lower risk for many smoking-related diseases (internal citation omitted). Smoke from pipes and cigars contains the same toxic substances as cigarette smoke, but those who use a pipe or cigar usually smoke at a lower frequency; observation indicates that they tend not to inhale the smoke, thus reducing their exposure to its toxic substances (internal citations omitted). Evidence indicates that former cigarette smokers are more likely to inhale pipe or cigar smoke than are primary pipe and cigar smokers who have never smoked cigarettes (internal citations omitted)" (Ref. 9 at 428-429 of the FDA Family Smoking Prevention and Tobacco Control Act)
  - ▶ For the full reference citation go to <https://www.surgeongeneral.gov/library/reports/50-years-of-progress/index.html>

# RISK IMPACT CONTINUED

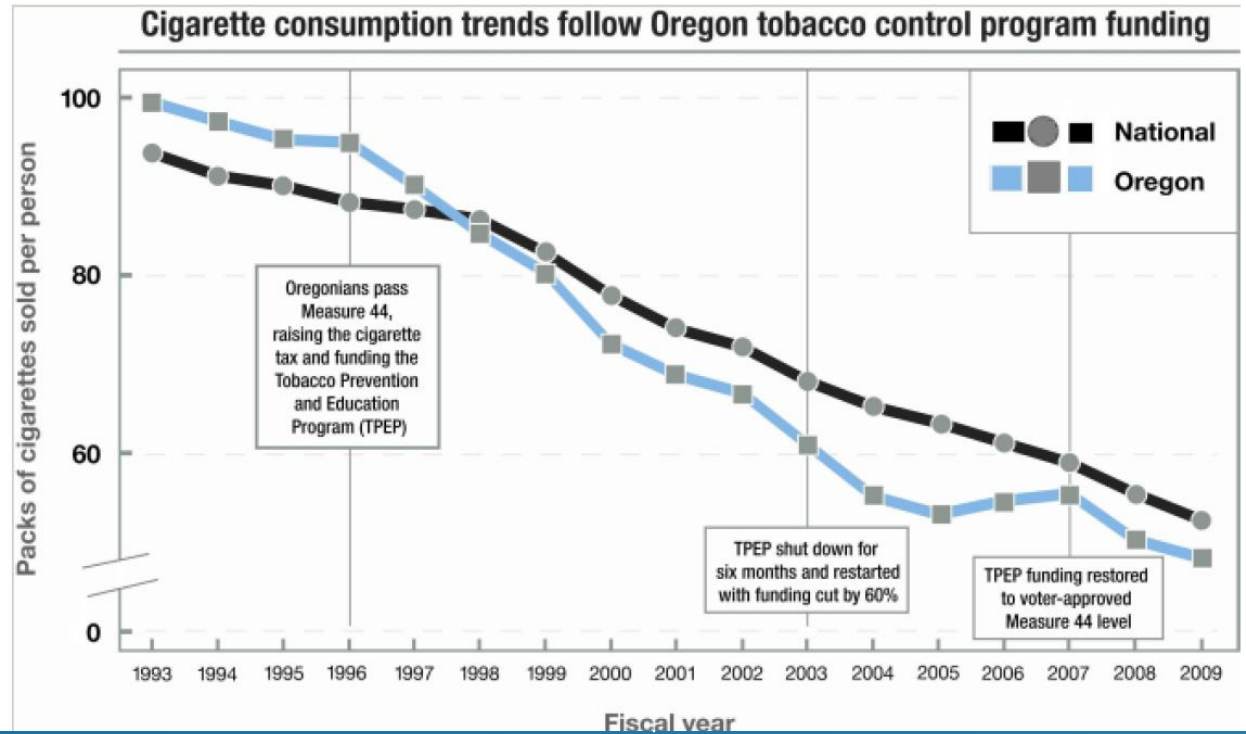
- ▶ A 2016 study co-sponsored by the FDA found that 1 – 2 cigars per day is not statistically significant in terms of all mortality rates.
  - ▶ Average cigar smoker is 1.5 per day according to the FDA report.
  - ▶ For the full summary and access to the full citation go to <https://rodotobaccotruth.blogspot.com/2016/08/fda-study-cancer-risks-nearly-nil-for-1.html>

# HEALTH CARE COSTS AND TOBACCO USE

**Exhibit 1: National Health Expenditures per Capita, 1990-2018**




## Tobacco Use in Oregon





# HEALTH CARE COSTS AND THE 2009 SB-734 LAW

- ▶ The Helping Benefit Oregon Smokers (HBOS) collaborative is targeted toward ending the “addictive” tobacco traits and to get Oregonians to quite smoking.
    - ▶ Many insurance companies segment cigarettes from Cigars
      - ▶ Cigars treated as non-addictive “entertainment” products
  - ▶ Premium cigar usage/non-usage does not impact SB-734
- 

# HEALTH RISKS, ADDICTION AND REDUCING USAGE

- ▶ While premium cigar health risks and addiction are significantly lower than cigarettes, there are still risks associated with consumption
- ▶ Price increases on premium cigars won't work due to "Black Market" sales; providing ample channels to purchase premium cigars outside of Oregon
  - ▶ Sales of premium cigars on-line
  - ▶ Sales of premium cigars from adjoining States (i.e. illicit channels)
    - ▶ WA has a 65¢ cap
  - ▶ Sales of illegal Cuban cigars (illegal due to Cuban embargo- unless you have visited Cuba as part of a government sponsored program or purchased outside the US)- see on-line comment above.
  - ▶ Sales of premium cigars from dubious channels aiming to skirt around tax and age limitations (Big negative impact on a consumers health as this product follows none of the FDA or State regulation on product manufacturing)
- ▶ Best practice is to leverage a proven program to reduce all tobacco usage; The Oregon Tobacco Education Program

# HEALTH CARE COSTS AND CONSUMER SENSITIVITY

- ▶ The rise in health care costs now impact Oregon residents purchasing power
  - ▶ further driving the need to find lower cost premium cigars from outside the State

**Exhibit 4: Cumulative Changes in Health Insurance Premiums, Inflation, and Workers' Earnings, 1999-2008**

