



April 9, 2019

House Committee on Revenue re: HB 2270

Dear Chair Nathanson, Vice-Chairs Marsh and Findley, Committee Members:

Core Mark International delivers and services the convenience retail industry of Oregon. Out of our Milwaukie, Oregon warehouse we employ over 230 Oregonians. During the course of 2018, our division collected well over \$65,000,000 in Oregon cigarette taxes from our customer base. This represents over a third of the cigarette taxes collected for the entire state. Our business, and our industry as a whole, is dependent on a level playing field when it comes to cigarette taxation. Core Mark is opposed to HB 2270 which calls for Oregon's cigarette tax to increase by 150%. This unprecedented increase to cigarette taxation will be a losing proposition for us all.

As we witnessed with Oregon's last round of 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 over 40 million packs of cigarettes annually to Oregon retailers due to the tax base difference of \$1.695 per pack. As the tax differential flattens, Oregon risks not only losing 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 is the reality of commercial cigarette smuggling. On a small criminal scale, a Chevy Malibu can hold 3000 packs of cigarettes; if the opportunity dollars are high enough a casual smuggler may turn criminal smuggler in order to profit 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 more than 560,000 packs of cigarettes. Based on our current tax rate, this would represent a revenue loss of \$744,800 to Oregon. With the proposed increase of \$2.00/pack from HB 2270, this truckload would now be worth \$1,864,800. 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 increase in street value, safety for all drivers transporting legally taxed and paid product becomes a greater concern. The proposed huge escalation of these costs, as



HB 2270 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 products, Core Mark strongly opposes HB 2270. This bill's planned increase to cigarette 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,

A handwritten signature in black ink, appearing to read "MH", written over a horizontal line.

Mike Hannon
President, Portland Division of Core Mark International, Inc