



## STRATEGIES TO INCREASE TOBACCO PRODUCT PRICES WILL REDUCE TOBACCO USE AMONG KIDS

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The scientific research is very clear that raising cigarette prices is one of the most effective ways to reduce smoking, especially among kids. In New York City, price increases brought about by higher city and state tobacco taxes have been instrumental in reducing smoking in the city. However, in recent years, progress in reducing smoking has slowed. For example, smoking among NYC high school students declined by half between 2001 and 2007 but has remained relatively constant since then at about 8.5 percent. Among NYC adults, smoking declined by 26.5 percent between 2002 and 2008 but has declined by only six percent (to 14.8%) since then.

Tax increases only work to the extent that they translate into increases in price, and several factors can reduce the impact of tax increases. These include aggressive price discounting by tobacco companies, selling small cigarette-like cigars and packaging them in smaller quantities to keep prices low, and the selling of untaxed cigarettes.

To ensure that price has the desired effect on reducing smoking, Mayor Bloomberg has proposed the Sensible Tobacco Enforcement bill (Int. No. 1021) to counter actions that reduce the price of tobacco products:

- Prohibiting tobacco product discounts
- Setting a minimum price on cigarettes and cigars
- Setting minimum package sizes for certain cigars and little cigars
- Enhanced tobacco tax enforcement efforts to reduce tax evasion by retailers

These proposals are solidly grounded in science. Decades of research on price increases and tobacco use show that when prices increase, use of tobacco products declines, especially among kids. Together, these measures will protect kids from the tobacco companies' aggressive strategies to target them with cheap products, helping ensure that higher tobacco prices in NYC continue to drive down smoking rates.

### ***Price Increases Reduce Tobacco Use, Especially Among Kids***

The evidence that tobacco product price increases are effective at reducing tobacco use is solid and extensive. Many scientific experts have concluded that one of the best ways to reduce tobacco use is to increase the price of tobacco products.<sup>1</sup>

- Agencies and organizations that have studied and support increasing tobacco product prices to reduce tobacco use include: the National Cancer Institute,<sup>2</sup> the U.S. Centers for Disease Control and Prevention,<sup>3</sup> the U.S. Surgeon General,<sup>4</sup> the Task Force on Community Preventive Services,<sup>5</sup> the National Academy of Sciences' Institute of Medicine,<sup>6</sup> the President's Cancer Panel,<sup>7</sup> the World Health Organization,<sup>8</sup> and the World Bank.<sup>9</sup>
- Numerous economic studies have found that particular groups are more sensitive to price than others. Youth are more price-sensitive than adults, and cigarette price and tax increases work even more effectively to reduce smoking among males, African American, Hispanics, and lower-income smokers.<sup>10</sup>
- Even the tobacco companies have long recognized the importance of price in promoting and sustaining tobacco use:
  - Philip Morris: *It is clear that price has a pronounced effect on the smoking prevalence of teenagers, and that the goals of reducing teenage smoking and balancing the budget would both be served by increasing the Federal excise tax on cigarettes.*<sup>11</sup>

- Philip Morris: *A high cigarette price, more than any other cigarette attribute, has the most dramatic impact on the share of the quitting population...price, not tar level, is the main driving force for quitting.*<sup>12</sup>
- R.J. Reynolds: *If prices were 10% higher, 12-17 incidence [youth smoking] would be 11.9% lower.*<sup>13</sup>

### **Tobacco Company Price Discounting Increases Youth Smoking**

Knowing the impact of price on smoking, tobacco companies spend billions of dollars on price discounting each year. A 2011 NYC survey showed that seven in 10 licensed tobacco retailers offered price-reducing incentives, such as sales prices and buy-one-get-one-free offers, with a higher concentration of stores offering price promotions in "high-risk neighborhoods."<sup>14</sup> These offers diminish the impact of tobacco tax increases by lowering price, which has its biggest impact on kids. Indeed, of the nearly \$8.5 billion the biggest tobacco companies spent in 2010 trying to get people to use their products, more than 80 percent (\$6.9 billion) was spent on some form of price promotion.<sup>15</sup> In *U.S. v. Philip Morris* (the 2006 civil racketeering judgment against major cigarette manufacturers), the court specifically found that tobacco companies use strategic price reduction strategies such as coupons and multi-pack discounts to target young people.<sup>16</sup>

- Defendants recognize that youth and young adults are more responsive to increases in cigarette and other tobacco prices and will not try smoking or continue to smoke if cigarette prices rise. Despite that recognition, Defendants continue to use price-based marketing efforts as a key marketing strategy.
- Defendants' price-related marketing efforts, including coupons [and] multi-pack discounts, have partially offset the impact of higher list prices for cigarettes, historically and currently, particularly with regard to young people.
- *Defendants could significantly reduce adolescent smoking by...stopping all price related marketing* (i.e., discounting and value added offers of cigarettes, especially in convenience stores, where this kind of marketing is concentrated and where young people are more likely to purchase cigarettes.

Coupons and multi-pack discounts are two effective ways to implement targeted price discounts. Both of them have the effect of reducing the actual price of cigarettes, which results in increased tobacco use.

- According to the 2012 Surgeon General's report:<sup>17</sup>
  - "In considering the numerous studies demonstrating that tobacco use among young people is responsive to changes in the prices of tobacco products, it can be concluded that the industry's extensive use of price-reducing promotions has led to higher rates of tobacco use among young people than would have occurred in the absence of these promotions."
  - "Because there is strong evidence that as the price of tobacco products increases, tobacco use decreases, especially among young people, then any actions that mitigate the impact of increased price and thus reduce the purchase price of tobacco can increase the initiation and level of use of tobacco products among young people."
- A 2007 study in the *Archives of Pediatrics and Adolescent Medicine* concluded that cigarette retail marketing practices, including advertising and promotions, increase smoking initiation and that restrictions on this type of marketing may reduce youth smoking.<sup>18</sup> Specifically, the study found:
  - "These findings support previous research that shows price-based promotional offers are particularly appealing to young price-sensitive smokers. Thus, the beneficial effects of higher cigarette prices are undermined when youth are able to take advantage of cigarette promotions. In addition, our results suggest higher cigarette prices are associated with discouraging youth from progressing to established smoking at most levels of smoking uptake."
  - "Overall, our results provide evidence that restricting point-of-sale advertising will discourage youth from trying smoking and policies that increase cigarette prices and/or restrict price-based promotions will have a long-term positive impact by preventing youth from moving farther along the smoking uptake continuum towards regular smoking."
- A 2005 study found that the more the tobacco industry spent on price promotions, the higher the initiation to regular smoking by 14-17 year olds despite price increases by the industry or due to increasing tax rates.<sup>19</sup>

In other words, the industry was able to dampen the public health benefits of preventing kids from starting to smoke from price increases by making available more promotions that reduced product prices.

- Promotional offers on cigarettes are used by all categories of smokers – especially young adults, women, and African Americans – with 35 percent of smokers using promotional offers every time they saw one.<sup>20</sup>
- In a report on “Camel Growth Among Males 18-24 Years Old in the Mid-West,” R.J. Reynolds concluded that “[t]he major factor contributing to CAMEL’s dramatic growth among Mid-West 18-24 year old males appears to be the increased level of Mid-West promotional support, and in particular, CAMEL’s targeted promotions...”<sup>21</sup>
- According to a 2012 U.S. Tobacco Retailer Survey conducted by Wells Fargo, tobacco companies’ ability to control price, or “pricing power,” has “remained healthy.” As one tobacco retailer put it, “most of the big boys have started putting in deeper discounts, which in effect have negated the price increases.”<sup>22</sup>
- Retailers selling tobacco have noted that buy downs are important because they bring more customers into the store and stimulate sales.<sup>23</sup> One convenience store owner notes, “We usually have a buydown going on all the time. It rotates around different brands and different companies.”<sup>24</sup>

The Sensible Tobacco Enforcement bill restricts the redemption of coupons, prohibits product discounts, and implements a minimum price for cigars will keep the prices of tobacco products high. As evidenced above, those policies will effectively counteract the tobacco industry’s efforts to make their products attractive to youth.

### ***Cheap Cigars Target Youth***

In the past few years, tobacco companies have taken advantage of tax discrepancies and the lack of pack size restrictions to lure youth to cigars. Some have changed cigarette products to meet the definition of large cigars to avoid taxes and keep prices low, while others package small cigars in as few as two per pack to help keep prices low (e.g. 2 for 99 cents). The recent explosion of small, cheap cigars has resulted in cigar consumption increasing 124 percent nationally, even as cigarette consumption declined.<sup>25</sup> Stories in the convenience store trade publication, *Convenience Store Decisions*, confirm the critical role of cheap cigars in purchasing decisions.

- “It’s cheaper, so it’s more in the grasp of kids.”<sup>26</sup>
- “Little cigars are an easy product to suggest to price-sensitive customers. If anybody complains about the cigarette prices all we have to say is, ‘Hey, have you tried these?’ You hold them up; they look like a cigarette pack. You tell them, ‘Yeah, the wrapper is brown, but don’t knock them until you try them.’ We do have quite a lot of people convert to them.”<sup>27</sup>
- “Every time they raise taxes on cigarettes or the price of cigarettes goes up more and more people look at the little cigars.”<sup>28</sup>
- “Little cigars are a pretty easy suggestive sell because when people complain about the cigarettes prices increasing you can say, ‘Well, we have this option’ and show them a pack of little cigars that looks very similar to a pack of cigarettes. From that standpoint, it’s pretty easy to get people to switch.”<sup>29</sup>

The provisions in the Sensible Tobacco Enforcement bill that regulate the package size and minimum pricing of little cigars will help reduce cigar use among kids in NYC. Requiring cheap cigars (\$3 or less) and cigarillos to be sold in packs of at least four and little cigars to be sold in packs of 20 (with a minimum price of \$10.50 per pack) would effectively increase the prices of these deadly and addictive products, making them less accessible to youth and eliminating smokers’ incentives to switch to cheaper tobacco products instead of quitting.

### ***Tax Evasion by Retailers Lowers Tobacco Prices***

While New York’s city and state tobacco tax increases have been very successful both in reducing tobacco use and generating revenue, the degree to which retailers sell tobacco products without the appropriate taxes makes tobacco use more affordable in addition to costing the city and state revenue. The Sensible Tobacco Enforcement bill, which includes increasing the penalties to retailers for tax evasion, will help ensure that retailers only sell cigarettes that bear the appropriate tax stamps, again helping to ensure that prices are kept high for kids.

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