

# Philip Morris & Tobacco Control

By Norman E. Kjono

July 31, 2006

Tobacco control advocates often claim that the biggest of Big Tobacco, Philip Morris (stock symbol MO), is an arch-foe that seeks to torpedo core elements of Tobacco Control Enterprise objectives to increase taxes on cigarettes, to expand smoking bans, and to enact FDA regulation of tobacco.

A Tobacco Control Enterprise flow chart appears on page 2. Historical returns for Philip Morris and other tobacco companies stock are on page 3. Page 4 is a fact and news summary about Philip Morris. Pages 5 and 6 are research paper abstracts about replacing cigarettes with nicotine inhalers such as Philip Morris' Aria. Page 7 is the first page of Campaign for Tobacco Free Kids' April 2003 paper that advocates replacing tobacco settlement payments with new cigarette taxes. Page 8 presents the campaign's September 2005 announcement about cigarette tax increases. Pages 9 and 10 address Parity Pricing. Page 11 summarizes Sextuple Dipping in consumer's and tax payer's pockets. Page 12 provides a line item breakdown of cost and taxes per pack of cigarettes, including \$2.53 per carton taxes on taxes. The preceding strongly suggest comparison of Philip Morris and Tobacco Control Enterprise positions:

## Tobacco Control Enterprise

1. Actively promotes smoking bans, funds smoking ban initiatives.
2. Advocates FDA regulation of tobacco.
3. Advocates cigarette tax increases.
4. Aggressively promotes the "fact" that nicotine is as addictive as heroin or cocaine.
5. Advocates reduction of nicotine content in tobacco products.
6. Distributes "Smoke Free" Nicotine Replacement Therapy delivery device products.
7. Profits from increased cigarette taxes through Parity Pricing increases for cost of NicoDerm CQ, Nicorette, etc.
8. Smoking bans support the market for "Smoke Free" nicotine delivery device products.
9. Benefits from a now-stabilized Current Smoker *source consumer base*.
10. Benefits from Campaign for Tobacco-Free Kids' advocacy to replace MSA payments with new cigarette taxes through Parity Pricing.
11. Funds tobacco control through Robert Wood Johnson Foundation grants and direct payments to tobacco control advocates.

## Philip Morris

1. Supports smoking bans, did not oppose or fund opposition to Washington's I-901 2005 statewide smoking ban.
2. Supports FDA regulation of tobacco. Nicotine in Aria would not be reduced by FDA mandate to reduce nicotine in cigarettes.
3. Tepid response to cigarette tax increases, put about 5% of proponents' funding behind opposition to Washington's I-773 in 2001.
4. With product liability resolved now agrees nicotine is addictive.
5. Has NEXT® "De-nicotineized" cigarette brand, which a study published by the *Society for Research on Nicotine and Tobacco* says could be used *in conjunction with* Nicotine Replacement Therapy to *quit smoking*.
6. Announced in October 2005 its "Smoke Free" Aria nicotine inhaler delivery device that was reportedly developed in 1994.
7. Parity Pricing artificially inflates the cost of Aria inhaler, just as it does Nicotrol inhalers and nasal sprays, as well as Nicorette.
8. Smoking bans support the market for Philip Morris' "Smoke Free" Aria nicotine inhaler, plus UST Skoal and Taboka smokeless brands.
9. Benefits from a now-stabilized Current Smoker consumer base.
10. Benefits from Campaign for Tobacco-Free Kids' advocacy to replace MSA payments with new cigarette taxes through Parity Pricing for inhaler plus reduced tobacco settlement payments.
11. Funds tobacco control advocacy through MSA plus grants to universities for research.

We observe tobacco control advocates promoting and arguing for policy that directly supports Philip Morris' mercantile interests. The above common points of interest and advocacy establish that there is an agreement among delivery device competitors in the nicotine market. The agreement is to support tobacco control advocacy as implemented by the Tobacco Control Enterprise, by and through affiliated *private* organizations. Nicotine product manufacturers and distributors in both tobacco and non-tobacco segments of that market profit from participation in the enterprise. Such profits are realized at the intended expense of nicotine consumers and taxpayers.



## Big Tobacco Three Year Total Returns

From **Philip Morris USA Web site** [www.philipmorrisusa.com](http://www.philipmorrisusa.com) about [Secondhand Smoke](#):

"We also believe that the conclusions of public health officials concerning environmental tobacco smoke are sufficient to warrant measures that regulate smoking in public places. We also believe that where smoking is permitted, the government should require the posting of warning notices that communicate public health officials' conclusions that secondhand smoke causes disease in non-smokers. "

From **RJ Reynolds Tobacco Web site** [www.rjrt.com](http://www.rjrt.com) about [Secondhand Smoke](#):

"For years, numerous government and public-health organizations, including the [U.S. Surgeon General](#) and the [U.S. Centers for Disease Control and Prevention](#) (CDC) have concluded and broadly communicated that exposure to environmental tobacco smoke (ETS), also called secondhand smoke, is a cause of lung cancer and heart disease in nonsmoking adults, and that it is associated with asthma, respiratory infections and other serious conditions in children. (Links to the Web sites of a number of these organizations are provided below.) R.J. Reynolds believes that people should refer to the conclusions of public-health authorities concerning health risks associated with ETS."

The contrasting statements above about Environmental Tobacco Smoke (ETS) were published as of October 2005. Tobacco control advocates often claim that Big Tobacco is behind earnest opposition to smoking bans. Such statements are generally accepted as true. As demonstrated by the above corporate statements, however, claims that Philip Morris supports opposition to smoking bans are false.

Big Tobacco knows that smoking bans do not reduce smoking prevalence or materially reduce the number of cigarettes purchased. Moreover, Big Tobacco more than recovers the cost of any cigarette sale reductions through price increases

justified by higher taxes and tobacco settlement costs. Forbes has reported that Big Tobacco increased cigarette prices an about \$1.05 per pack to allegedly cover the \$0.45 per pack cost of the 1998 tobacco Master Settlement Agreement (MSA).

Such policy decisions by Big Tobacco translate directly to the bottom line. Over the past three years Big Tobacco has outperformed the Dow and S&P stock indices by 300 percent-plus.

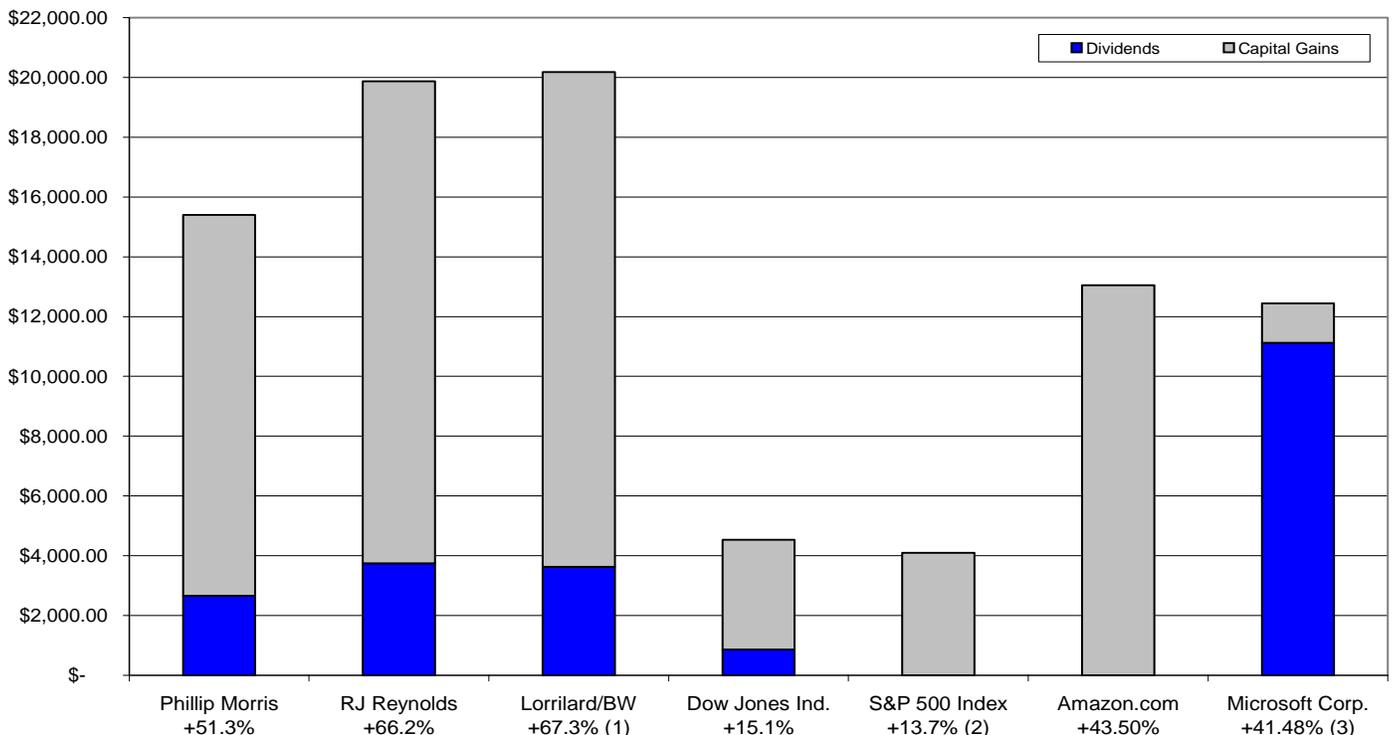
Marlboro Man rides tall all the way to the bank, along with tobacco control advocates who share in tobacco sales and tax revenues. That's quite a "stern lesson" that tobacco settlement architects have taught Philip Morris.

Where does the nicotine in Nicorette gum, NicoDerm CO patches and Aria inhalers come from?

### Comparative Annualized Total Returns And Components

\$10,000 Invested In Big 3 Cigarette Companies October 7, 2002

Three Year Performance October 2002 to October 2005



[1] Lorillard and Brown & Williamson Merger

[2] S&P Index Assumes Reinvested Dividends

[3] Includes One-Time \$3.00 Per Share Special Distribution

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## Marlboro Man's New Opportunities

Until recently pharmaceuticals dominated the "Smoke Free" nicotine delivery device market. A new player has arrived: Philip Morris (see October 30, 2005 Los Angeles Times to right and picture at center.)

Yet to be approved by FDA, Aria is a distinctly different "Smoke Free" nicotine delivery device. Aria delivers nicotine to the lungs, like a cigarette. With other inhalers, consumers ingest nicotine through mouth tissues.

Philip Morris supports smoking bans and FDA regulation of tobacco, advancing its "Smoke Free" nicotine brand interests. Should FDA mandate that the nicotine content of tobacco products be reduced, as 2005 U.S. Senate bill S.666 would authorize, Philip Morris will be the only tobacco company with a "Smoke Free" nicotine inhaler and its "De-Nicotized" NEXT cigarettes, ready to market.

Philip Morris is also expanding its international distribution of cigarettes (see announcements at right.) The company could wind up dominating the USA Nicotine Market, while expanding foreign cigarette sales. The comparative size of Philip Morris' overseas market is astounding. July 25, 2006 parent Altria Corp. reported Philip Morris USA shipped 47.2 billion cigarettes the second quarter of 2006, compared to 213.9 billion cigarettes shipped overseas by Philip Morris International during the same period.

Anti-tobacco activists and legislators are aggressively implementing two of three steps necessary for Philip Morris' nicotine marketing strategy to succeed: increasing the cost of cigarettes with new taxes and imposing a coerced consumer choice for "Smoke Free" nicotine through smoking bans. Those public health advocates and legislators have enhanced the market for Aria, while assuring its profitability.

Aria is an example of the "deeply inhaled, highly addictive" "clean" nicotine inhaler designed to "establish or maintain" addiction referred to in tobacco control papers. Dr. Waltn Summer II is the author of 2003 and 2005 research papers that outline a mercantile strategy to replace cigarettes with nicotine inhalers (see pages 5 and 6). Those studies say that increasing the price of cigarettes, limiting the opportunities to smoke, and reducing the nicotine content of cigarettes by regulatory mandate are critical elements of the strategy.

If the apparent strategy to replace cigarettes with "Smoke Free" nicotine is successfully implemented state cigarette taxes would be decimated. State Master Settlement Agreement receipts would also diminish and tobacco bond debt service revenues would dry up.

With a 50 percent market share Philip Morris is the greatest single source of MSA revenues for debt service on tobacco bonds. Philip Morris also supports smoking bans and FDA regulation of tobacco. Philip Morris is, therefore, at once the greatest source of revenue to pay bondholders and the most influential tobacco lobby to put bondholders' interests in jeopardy. At the same time, Philip Morris enjoys a subsidy through reduced MSA payments, while still charging customers prices that were increased to fund the original payment schedule.

Those who deny this strategy and its outcomes do so at peril to taxpayers, bondholders and consumers. We observe tax increases and Parity Pricing to increase profitability, smoking bans to impose coerced consumer choice, and proposed legislation that would give FDA authority to reduce the nicotine content of tobacco. We also observe new "Smoke Free" nicotine products coming on-line to capture that new market and a "Smoke Free" strategy by Philip Morris. What else is necessary?



The Los Angeles Times October 30, 2005,

### "The Mystery of Philip Morris' Nicotine Inhaler,"

By Myron Levin

Cigarette maker Philip Morris has developed an inhaler that could deliver a nicotine mist deep into the lungs, giving smokers a satisfying dose of the addictive drug without the carcinogens, gases and toxic metals that make tobacco smoke so dangerous. Cloaked in secrecy, the device was invented nearly a dozen years ago at a time the tobacco industry was vigorously denying that nicotine was addictive, internal company documents show. It was part of an effort by the top cigarette maker to explore the possibility of offering a 'clean' form of nicotine to those who can't or won't quit. . . ."

Seattle Times, January 28, 2006

### "Philip Morris Cuts Its Prices In Spain, Sparking Uproar"

By Daniel Woolfs of the Associated Press

MADRID, Spain — Last week, the Socialist government raised taxes on cigarette manufacturers. . . . Spain's top manufacturer, Altadis, responded by raising prices. But American giant Philip Morris shocked everyone Thursday by lowering prices for Marlboro by around 15 percent and making similar cuts for two other brands in Spain. . . ."

Forbes.com Market Scan, May 19, 2006

### "Higher Cigarette Prices in Japan To Boost Altria"

By Mary Crane

Morgan Stanley analyst David J. Adelman said higher cigarette prices in Japan and favorable foreign exchange rates led to an increased forecast for Philip Morris International and earnings estimates for its parent company, the Altria Group. "

### Joint Press Release from Philip Morris International and China National Tobacco Corporation / Beijing / 21 December 2005

The China National Tobacco Corporation (CNTC) and Philip Morris International (PMI), an international operating company of Altria Group, Inc., (NYSE: MO), have reached agreement on the licensed production in China of PMI's Marlboro brand and the establishment of an international equity joint venture between China National Tobacco Import and Export Group Corporation (CNTIEGC) . . . ."

### Philip Morris International / Lausanne / 25 April 2005

GWP C.V., an affiliate of Philip Morris International Inc. (PMI), acquired 96.65% of the outstanding shares of Compañia Colombiana de Tabaco S.A. ("Coltabaco") in a public tender offer completed today.

### Philip Morris International / Jakarta / 14 March 2005

Philip Morris International Inc. (PMI) today announced that it has entered into agreements to acquire a 40% stake in Indonesian kretek cigarette manufacturer PT HM Sampoerna Tbk . . . and will proceed to make a public tender offer for 100% of the remaining shares."

### PM USA's Position on FDA & Tobacco ([www.philipmorrisUSA.com](http://www.philipmorrisUSA.com))

"On March 17, 2005, bipartisan legislation was reintroduced to the 109th Congress. . . . The legislation would provide the U.S. Food and Drug Administration (FDA) authority to broadly regulate tobacco products. Altria and Philip Morris USA (PM USA) welcome this congressional action and applaud the Senate and House sponsors. . . . for their leadership and ongoing efforts to pass FDA regulation of tobacco."

### PM USA's Position Regarding Smoking Bans ([www.philipmorrisUSA.com](http://www.philipmorrisUSA.com))

"We also believe that the conclusions of public health officials concerning environmental tobacco smoke are sufficient to warrant measures that regulate smoking in public places."

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Author Keyword  
Vol Page

[Advanced]

Tobacco Control 2003;12:124-132  
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## RESEARCH PAPER

# Estimating the health consequences of replacing cigarettes with nicotine inhalers

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**Background:** A fast acting, clean nicotine delivery system might substantially displace cigarettes. Public health consequences would depend on the subsequent prevalence of nicotine use, hazards of delivery systems, and intrinsic hazards of nicotine.

**Methods:** A spreadsheet program, DEMANDS, estimates differences in expected mortality, adjusted for nicotine delivery system features and prevalence of nicotine use, by extending the

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health goals, using four different risk attribution scenarios and nicotine use prevalence from 0–100%.

**Main outcome measures:** Changes in years of potential life before age 85 (YPL85).

**Results:** If nicotine accounts for less than a third of smokers' excess risk of SAMMEC diseases, as it most likely does, then even with very widespread use of clean nicotine DEMANDS predicts public health gains, relative to current tobacco use. Public health benefits accruing from a widely used clean nicotine inhaler probably equal or exceed the benefits of achieving Healthy People 2010 goals.

**Conclusions:** Clean nicotine inhalers might improve public health as much as any feasible tobacco control effort. Although the relevant risk estimates are somewhat uncertain, partial nicotine deregulation deserves consideration as part of a broad tobacco control policy.

## Excerpts From Dr. Sumner's June 2003 Research Paper

Reduced regulation of clean nicotine could lead to the development of delivery systems designed to establish or maintain nicotine addiction. If people believe these products to be safer than cigarettes, then nicotine use may increase. Some smokers would switch nicotine sources rather than quit.<sup>68</sup> Some ex-smokers and never-smokers might become regular users, exposing these groups to the health hazards of nicotine. Injuries accruing to never-smokers and potential ex-smokers who use clean nicotine might offset illness avoided in smokers who switch to safer nicotine sources.

Deeply inhaled nicotine may addict users just as efficiently as cigarettes.

Legislation could shield the nicotine and tobacco industries from liability for the health effects of nicotine use, on the theory that even addicted individuals bear some responsibility to weigh the known risks against the perceived benefits of nicotine,<sup>51</sup> and in recognition of the historical futility of efforts to fully eradicate nicotine use.<sup>52</sup>

As a special form of counter-advertising, legislation could permit promotion of clean nicotine delivery systems as an alternative to cigarettes, perhaps with fewer constraints than we apply to tobacco products. As with tobacco pipes and cigarette packages, the nicotine industry could produce myriad variations in the appearance of inhalers, so that users could select inhaler designs based on image. These images might even replicate successful smoking themes, such as rugged individuality, suave character, and pleasure. Pharmaceutical companies would then promote the images and real advantages of a modern nicotine inhaler to potential users, beginning with current smokers.

Local ordinances that curtail public smoking already create settings where a nicotine inhaler could be the most satisfying alternative for current smokers. Lacking a burning tip and side stream smoke, an inhaler should present no risk to bystanders, and requires no restriction on public use. Employers could even abolish outdoor smoking areas and smoking breaks if addicted employees could inhale nicotine indoors.

Thus, nicotine inhalers would offer a valuable health benefit to current smokers, and rational policies based on established tobacco control principles could promote nicotine inhaler market share at the expense of cigarettes.

Some undesirable public health scenarios might unfold if a clean nicotine inhaler did not succeed in replacing tobacco cigarettes. First, the inhaler could simply disappear from the market, leaving the prevalence of cigarette use and nicotine addiction unchanged or even increased. Second, the inhaler could recruit new users, but not replace enough cigarette smoking to offset harms to the new users. However, even this short term public health failure would create legislative opportunities to demand lower nicotine content in cigarettes while raising cigarette taxes aggressively.<sup>65</sup> Relatively satisfying inhalers could then supplant expensive and unsatisfying cigarettes and provide an alternative to black market cigarette purchases.<sup>54</sup>

For a wide range of plausible inputs, DEMANDS estimates that the health consequences of completely displacing cigarettes with a widely used, deeply inhaled, highly addictive, pharmaceutical grade nicotine inhaler are comparable or superior to reducing smoking prevalence to 12%. Public health advocates and pharmaceutical companies could adapt tobacco control techniques to encourage smokers to replace cigarettes with nicotine inhalers.

# Permissive nicotine regulation as a complement to traditional tobacco control

Excerpts From Dr. Sumner's February 2005 Research Paper

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## Abstract

## Background

Cigarette smoking takes a staggering toll on human health and attracts considerable public health attention, yet real solutions are limited. The Food and Drug Administration (FDA) has limited authority to regulate cigarette smoking, and the FDA is unlikely to substantially reduce smoking or related deaths.

## Discussion

The past 50 years of tobacco control efforts demonstrate that nicotine prohibition is a practical impossibility for numerous reasons, state revenue being one of the most ominous. The FDA already has regulatory authority over pharmaceutical grade nicotine products, and requires pharmacists to dispense the most addictive of these only with prescriptions. Meanwhile, every corner store can sell far more addictive and dangerous cigarettes to any adult. The FDA could immediately increase competition between cigarettes and clean nicotine products by approving available nicotine products for over-the-counter sales to adults. Similarly permissive regulation of cigarettes and addictive nicotine products will reduce tobacco use and improve smokers' health, but increase nicotine use in the population. Fortunately, restricted youth access and accurate labeling of nicotine's absolute risks will dissuade many non-smokers from experimenting with it, while accurate depiction of its risks relative to cigarette smoking will encourage many smokers to switch. The FDA could take a series of small steps that might ultimately replace a large proportion of cigarette smoking with equally addictive nicotine products, without risking serious public health setbacks. Vaccine, methadone, and injury prevention policies establish relevant public health precedents.

## Summary

Cigarettes, or an equally addictive alternative, will be a permanent and common product in most societies. Regulations for addictive nicotine products are hard to justify. Addictive nicotine products are applicable to addictive nicotine products that are urgently needed to evaluate addictive nicotine products. The Food and Drug Administration's option to permit non-prescription sales of addictive nicotine.

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Addictive nicotine compliments other tobacco control strategies. Modern tobacco control policies are applicable to addictive nicotine. Controlled trials and test market studies are urgently needed to evaluate addictive nicotine as an alternative to smoking. Meanwhile, legislators should preserve the Food and Drug Administration's option to permit non-prescription sales of addictive nicotine.

Historically, States willingly trade citizens' health for wealth. Seventeenth century monarchs who opposed smoking relented as tobacco tax revenue accumulated. The States demonstrated the same perverse values with petitions to protect their MSA payments when an Illinois court threatened Altria with a US\$12 billion bond [5].

As prescription methadone substitutes for illegal, immediately incapacitating heroin, non-prescription nicotine could substitute for legal, slowly injurious cigarettes.

States could tax cigarettes and nicotine at different rates. . . . This tax policy would discourage cigarette use, encourage switching to nicotine, and maintain some State revenue as cigarette sales decline.

Data collected during this first step should document the relative safety of addiction to pharmaceutical nicotine versus cigarettes, the market share of each product, and the increase in total nicotine use.

If experience with the current nicotine spray and inhaler is reassuring, the FDA can take a second step, to approve clearly addictive nicotine inhalers for non-prescription use. These fast acting inhalers will deliver nicotine in a powder [103] or aerosol to the alveoli, as pulmonary inhalers deliver steroids and beta agonists.

Several trends could develop that encourage smokers to switch to addictive nicotine inhalers, while limiting recruitment of non-smokers. . . . Smoke-free workplace regulations would spread with less controversy, as fast acting inhalers give smokers a reasonable alternative. Employers might voluntarily forbid smoking. . . . The government might permit more aggressive advertising of nicotine inhalers to further undermine cigarette smoking. . . . Communities might press smokers to switch so that fire departments, health care providers, and research funding agencies could shift resources to many other pressing problems. Ultimately, palatable inhaled nicotine products could finally allow governments to ban tobacco cigarettes.

. . . policy changes will slowly shift the probabilities that smokers will attempt and succeed in quitting, that smokers will switch to nicotine indefinitely or use both nicotine and cigarettes, that ex-smokers relapse to nicotine use, and that non-smokers begin using nicotine. . . . if at least one smoker can switch to addictive inhaled nicotine for every 50 ex-smokers and non-smokers who start using nicotine, then public health will benefit from permissive nicotine regulation.

# CAMPAIGN For TOBACCO-FREE Kids<sup>®</sup>

## USING STATE CIGARETTE TAX INCREASES TO REPLACE REDUCED OR DELAYED SETTLEMENT PAYMENTS

The unadjusted base payments by the cigarette companies to the states called for by the Master Settlement Agreement decline by 16.5% percent from 2003 to 2004 – with even sharper declines for the individually settling states pursuant to their settlement agreements. In addition, the downward volume adjustment in the settlement agreements is now reducing the base payment amounts by more than 20 percent. While the automatic upward inflation adjustment to the settlement payments is offsetting an increasing amount of these downward volume adjustments, it is clear that state settlement receipts will be lower than the unadjusted base payment amounts for some years to come. In addition, some state officials worry that one or more of the major cigarette companies might declare bankruptcy – because of court rulings against them or other new legal obligations -- and delay or reduce their settlement payments to the states even further.

While it is unlikely that any of the major cigarette companies will declare bankruptcy, it is certain that the states could quickly and easily make up for any actual or possible reductions or delays to their settlement payments simply by increasing their cigarette tax rates. And parallel increases to their tax rates on other tobacco products would collect even larger settlement-

replacement revenues. No matter what else happens, the addictive power of cigarettes ensures that large amounts of cigarettes will continue to be sold by someone in each state for many years to come. That means that the states can always replace any lost, reduced, or delayed tobacco settlement payments by raising their cigarette tax rates. Put simply, the additional revenue per pack sold can easily make up for any declines in pack sales; and every state that has significantly raised its cigarette tax rate has experienced both reduced smoking levels and increased state revenues.

Box, Underline Added

States	Average Unadjusted Annual Settlement Payments 2003-2010 (millions of dollars)	Current State Cigarette Tax Rate (cents per pack)	Cigarette Tax Increase to Replace 50% of Settlement Payments (cents per pack)	Cigarette Tax Increase to Replace 10% of Settlement Payments (cents per pack)
Alabama	\$119.3	16.5	18	4
Alaska	<p style="text-align: center;"><i>The Wall Street Journal</i>, March 8, 2006  <b>“Big Tobacco Seeks \$1.2 Billion Cut In Payments to States”</b>                      By Vanessa O’Connell</p> <p>“Forty-six states are expecting a total of \$6.5 billion this spring, the latest in a series of annual payments stemming from the 1998 Master Settlement Agreement with major tobacco companies. But Altria Group Inc.’s Philip Morris USA and others say they expect to withhold \$1.2 billion and are raising the possibility that they will seek similar cuts in years to come.”</p>			0
Arizona				6
Arkansas				3
California				0
Colorado				5
Connecticut				0
Delaware				4
Washington, DC				5
Florida				5
Georgia				4
Hawaii				1
Idaho				5

\* Even if one of the major cigarette companies did successfully declare bankruptcy, it is highly unlikely that it would go out of business or stop selling cigarettes. Given the enormous, predictable revenues from cigarette sales, any bankruptcy proceedings would focus on reorganizing the company's debts and liabilities while it continued to sell cigarettes and bring in income – and some portion of that company's settlement payments would likely be paid during the reorganization period with full payments thereafter. Even if a major cigarette company did somehow go out of business, the other cigarette companies would quickly buy its brands or otherwise take over its market share and, consequently, take over its settlement payment obligations, as well.

**Did You Know? Tobacco use results in a global net loss of \$200 billion per year.**



Special Report

# Higher Cigarette Taxes

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Box Added

**Updated:** 9.9.05

Increasing cigarette taxes is a WIN, WIN, WIN solution for states - a health win that reduces smoking and saves lives; a fiscal win that raises revenue and reduces health care costs; and a political win that is popular with the public. It's no

wonder that 41 states have increased cigarette taxes since January 1, 2002, more than doubling the average state cigarette tax from 43.4 cents to 91.7 cents a pack.

### Related Materials

[Current State Cigarette Tax Rates](#)

[Fact Sheets: State Tobacco Taxes](#)

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#### Win #1: Fewer Kids Smoking

Studies, cigarette smoking in the percent

**Win #2:** Every state enjoyed smoking fund essential preventive cigarette. Read our Cigarette

**Win #3:** In nation over where Republicans and independents alike want elected officials to increase tobacco taxes to help prevent kids from smoking.

Reuters.com, July 25, 2006

#### "Altria Profit Up With Help From Kraft"

By Brad Dorfman

Altria Group Inc. . . . posted a slight increase in quarterly net income, helped by tobacco price increases and market share gains . . . Altria, the parent of Marlboro cigarette makers Philip Morris and Oreo cookie maker Kraft, posted a profit of \$2.71 billion, or \$1.29 a share, for the second quarter, versus \$2.67 billion, or \$1.28, a year earlier. . . . Operating income at Philip Morris USA rose 3.2 percent to \$1.3 billion. The unit shipped 47.2 billion cigarettes in the quarter, . . . Operating income at Philip Morris International rose 5.7 percent to \$2.1 billion, helped by price increases and the acquisition of Sampoerna in Indonesia. The international unit shipped 213.9 billion cigarettes in the quarter, . . ."



**Comparative Economic Analysis  
Cigarettes vs. Nicorette Gum, NicoDerm CQ Patch  
Analysis Sheet 1**

	Marlboro Cigarettes		Nicorette Gum		NicoDerm CQ Patch	
	14-Jun-00	6-Jan-06	14-Jun-00	6-Jan-06	14-Jun-00	12-Jan-06
	Change	Change %	Change	Change %	Change	Change %
Total Retail Cost	\$ 41.80	\$ 57.65	\$ 52.12	\$ 55.48	\$ 3.36	\$ 6.4
(1) Washington Sales Tax	\$ 3.31	\$ 4.66	\$ 4.13	\$ 4.49	\$ 0.36	\$ 8.7
Retail Price Before Sales Tax	\$ 38.49	\$ 52.99	\$ 47.99	\$ 50.99	\$ 3.00	\$ 6.3
(2) Federal Excise Tax	\$ 2.40	\$ 3.90	\$ -	\$ -	\$ -	\$ -
Retail Cost Before State Sales & Federal Excise Tax	\$ 36.09	\$ 49.09	\$ 47.99	\$ 50.99	\$ 3.00	\$ 6.3
(3) Washington State Excise Tax	\$ 8.25	\$ 20.25	\$ -	\$ -	\$ -	\$ -
(4) Master Settlement Agreement Charge	\$ 4.50	\$ 4.50	\$ -	\$ -	\$ -	\$ -
Total State Nicotine Charges To Consumer	\$ 12.75	\$ 24.75	\$ -	\$ -	\$ -	\$ -
<b>Base Product Retail Cost Per Carton/Box</b>	<b>\$ 23.34</b>	<b>\$ 24.34</b>	<b>\$ 47.99</b>	<b>\$ 50.99</b>	<b>\$ 3.00</b>	<b>\$ 6.3</b>
(5) Total Revenue To State & Federal Government	\$ 18.46	\$ 33.31	\$ 4.13	\$ 4.49	\$ 0.36	\$ 8.7
Government Revenue Percent Total Retail Cost	44.2	57.8	7.9	8.1	0.2	2.5
(6) Total Units in Box/Carton	200	200	132	110	(22.00)	(16.7)
Total Retail Cost Per Unit (Cents)	20.90	28.83	39.48	50.44	10.960	27.8
(7) Total Retail Cost Per Day	\$ 4.18	\$ 5.77	\$ 5.21	\$ 5.55	\$ 0.34	\$ 6.5
<b>Base Product Retail Cost Per Unit (Cents)</b>	<b>11.67</b>	<b>12.17</b>	<b>36.36</b>	<b>46.35</b>	<b>9.99</b>	<b>27.5</b>

(8) **Cigarette Tax and MSA Profit Advantage To "Smoke Free" Nicotine:**

Per Box of Nicorette, June 2000 vs. January 2006	\$ 15.15	\$ 28.65
Per Piece of Gum, June 2000 vs. January 2006 (Cents)	15.58	30.83
Per Patch, 2006 Only (Cents)	N/A	204.64

(9) **Cigarette sales taxes charged on excise taxes and MSA cost:**

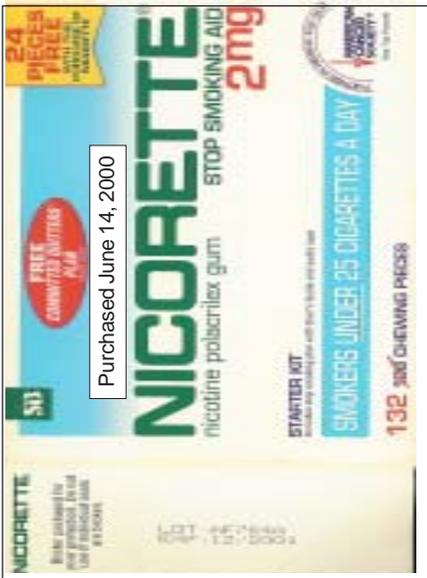
Per Carton	\$ 1.30	\$ 2.52
Per Cigarette (Cents)	0.650	1.260

Cost Component	Marlboro		Nicorette	
	2000	2006	2000	2006
Base Prod.	\$ 23.34	\$ 24.34	\$ 47.99	\$ 50.99
Sales Tax	\$ 3.31	\$ 4.66	\$ 4.13	\$ 4.49
MSA Cost	\$ 4.50	\$ 4.50	\$ -	\$ -
Fed Excise	\$ 2.40	\$ 3.90	\$ -	\$ -
State Excise	\$ 8.25	\$ 20.25	\$ 12.00	\$ 145.5%
Total Retail	\$ 41.80	\$ 57.65	\$ 52.12	\$ 55.48
Cost per Unit	\$ 0.2090	\$ 0.2883	\$ 0.0793	\$ 0.2788

The cost of Nicorette PER UNIT (piece of gum) increased by 10.96 cents from 2000 to 2006. At 110 units per box in 2006 the cost increase is 110 X 10.96 cents = \$12.06. A per unit cost analysis reveals that the 2006 cost of Nicorette increased from 2000 by nearly the precise amount of \$12 in new cigarette taxes added.

**Footnotes:**

- State sales tax on these products was 8.6 percent in 2000 and 8.8 percent 2006.
- Congressional Research Service reports that federal cigarette excise tax was 24 cents per pack 2000 and is 39 cents per pack 2006. Nicorette excise tax in 2000 and 2006 is zero.
- Tobacco Control I-773 added 60 cents per pack new state cigarette tax in 2001 and Washington legislature added another 60 cents per pack tax in 2005
- a.) See Prospectus for Washington October 2002 \$517 million Tobacco Settlement Authority revenue bond offering page 58 regarding 1998 cigarette cost increases:  
 "This was primarily due to a \$0.45 per pack increase in November 1998 intended to offset the costs of the MSA and the agreements with the Previously Settled States."  
 b.) See Prospectus for Washington October 2002 \$517 million Tobacco Settlement Authority revenue bond offering page 15 regarding who pays costs of MSA:  
 "The settlement represents the resolution of a large potential financial liability of the PMIs for smoking related injuries, the costs of which have been borne and will likely continue to be borne by cigarette consumers."  
 c.) Total Revenue To State & Federal Government is the sum of federal excise tax, state sales tax, and Master Settlement Agreement costs.  
 d.) Nicorette purchased in 2000 had 132 pieces of gum, Nicorette purchased in 2006 had 110 pieces of gum. Cigarette carton was constant at 200 cigarettes, as is NicoDerm CQ at 14 patches.  
 e.) Please note reduction of gum in box from 132 to 110 pieces. If customer chews recommended 16 pieces per day per day, which creates higher per unit cost in addition to price increase.  
 f.) NicoDerm CQ is same retail price as Nicorette, but with 14 patches at one patch per day. Per day recommended use cost is less than 50 percent of Nicorette in 2006.  
 g.) Nicorette and NicoDerm CQ do not pay federal and state excise taxes or MSA costs that cigarette companies do. Consequently, those amounts flow directly to corporate bottom lines.  
 h.) Washington sales taxes are charged on federal excise taxes, state excise taxes, and MSA charges. This creates a hidden state "Tax on Tax" sales tax charge for cigarette consumers.



**QFC**  
Quality Food Centers

**"You Know It's Going To Be Good."**

8867 161st Ave NE  
425-869-8006  
YOUR CASHIER WAS SERVICE CENTER #

MARLBORO NP 52.39 T  
TAX 1.66  
\*\*\*\* BALANCE 57.65  
\*\*\*\*\*

QFC # 860  
8867 161ST AVE NE  
REDMOND, WA 98052  
DEBIT Purchase \*\*\*\*\*6243  
PURCHASE: 57.65  
CASHBACK: 0.00  
TOTAL : 57.65  
DEBIT  
CHANGE

Date of Birth: 12 Dec 17 1975  
TOTAL NUMBER OF ITEMS SOLD = 1  
01/06/06 04:45pm 860 30 154 888222

THANK YOU FOR SHOPPING AT YOUR  
BELLER BOTEGA QFC

**QFC**  
Quality Food Centers

**"You Know It's Going To Be Good."**

8867 161st Ave NE  
425-869-8006  
YOUR CASHIER WAS PHARMACEUTICALS CENTER

DEBIT Purchase \*\*\*\*\*6243  
PURCHASE: 57.65  
CASHBACK: 0.00  
TOTAL : 57.65  
DEBIT  
CHANGE

Date of Birth: 12 Dec 17 1975  
TOTAL NUMBER OF ITEMS SOLD = 1  
01/06/06 04:45pm 860 30 154 888222

THANK YOU FOR SHOPPING AT YOUR  
BELLER BOTEGA QFC

**Nicorette 01/06/06**

**QFC**  
15800 Redmond Way NE  
Redmond, WA 98025  
425-885-2311

OPEN 24 HOURS

MARLBORO NP 38.49 T  
NICORETTE 47.99 T  
\*\*\*\* TAX 7.44 BAL 93.92  
CASH 100.00  
CHANGE 6.08

TOTAL NUMBER OF ITEMS SOLD = 2  
6/14/00 2:31 PM 5320 63 0076 888222

**QFC**  
Quality Food Centers

**"You Know It's Going To Be Good."**

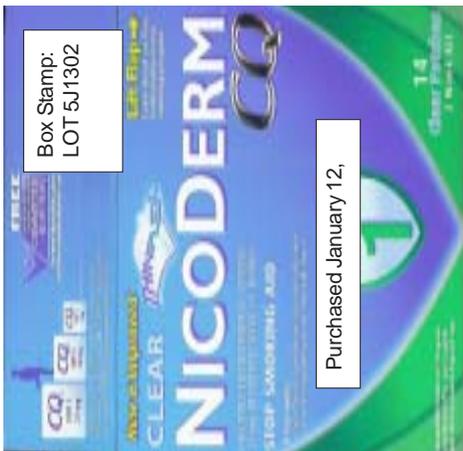
8867 161st Ave NE  
425-869-8006  
YOUR CASHIER WAS PHARMACEUTICALS CENTER

DEBIT Purchase \*\*\*\*\*6243  
PURCHASE: 57.65  
CASHBACK: 0.00  
TOTAL : 57.65  
DEBIT  
CHANGE

Date of Birth: 12 Dec 17 1975  
TOTAL NUMBER OF ITEMS SOLD = 1  
01/12/06 11:23am 860 65 10 996666

THANK YOU FOR SHOPPING AT YOUR  
BELLER BOTEGA QFC

**Nicoderm Q 01/12/06**



## Sextuple Dipping, More Dips on the Way

1. Big Tobacco charges cigarette consumers 45 cents per pack price increases to fund scheduled tobacco Master Settlement Agreement (MSA) payments of \$8 billion per year, while paying only \$6.5 billion to states. \$1.5 billion per year Dip No. 1.

2. While cigarette consumers are still paying 45 cents per pack to fund the MSA, states are passing more taxes in accordance with Campaign for Tobacco-Free Kids' advocacy to replace MSA payments with new cigarette taxes. 46.5 million smokers nationwide smoking an average of 22 cigarettes each day at 48.3 cents per pack tax increase equals a \$9 billion per year Dip No. 3.

3. After \$9 billion in cigarette tax increases since 2002 states have limited incentive to protect the interests of tobacco bond holders. The 60 cent per pack cigarette tax 2005 increase passed by the Washington legislature in 2005 is 33 percent more than the 45 cent MSA charge to consumers by tobacco companies. States now enjoy sufficient tax revenues to where they could renegotiate the MSA with Big Tobacco and let tobacco companies off the hook, leaving bond investors to fend for themselves. Considering Washington's October 2002, \$517 million tobacco settlement revenue bond offering, and about \$30 billion of such bonds outstanding nationwide, \$500-million-to-\$30-billion-dollar Dip No. 2.

4. Federal and state excise taxes are included in product cost on which sales tax is charged. As noted at center page, in Washington cigarette consumers pay \$2.52 per carton (25 cents per pack) of 8.8% state sales taxes on \$3.90 federal excise taxes, \$20.25 state excise taxes, and \$4.50 MSA charges. One pack per day for 922,000 Current Smokers in Washington says that tax policy can generate \$232,344 in added sales taxes per day, or \$84,805,560 per year. \$84 million two-bit state tax policy Dip No. 4.

5. Should cigarette consumers submit to discriminatory taxation and ostracization by ban "incentives" to quit smoking, Johnson & Johnson, Pfizer and GlaxoSmithKline already have the quintuple dip arranged. None of those corporations pay federal and state excise taxes, or 45 cents per pack MSA costs, on their products like tobacco companies do on cigarettes. In Washington, Current Smokers who use NicoDerm CQ or Nicorette to quit smoking pay \$28.65 in artificially inflated tax-differential costs. *Every box of Nicorette and NicoDerm CQ sold nationwide therefore becomes a transfer of cigarette taxes from states to corporate bottom lines of Pfizer, Johnson & Johnson and GlaxoSmithKline.* If each of 922,000 smokers were to buy just one box of NRT that tax differential could produce \$26,415,300 in artificial profits for manufacturers and distributors. Washington \$26 million Dip No. 5.

6. The \$28.65 Washington tax differential also provides artificial price support for Philip Morris' "Smoke Free" Aria nicotine inhaler, which it announced in October 2005 (see page 4.) Add that price support to the \$1.5 billion subsidy for Big Tobacco and we find Philip Morris' hands in consumers' pockets on tobacco *and anti-tobacco* sides, with the widely-published support of the Campaign for Tobacco Free-Kids. Yet-to-be-determined Dip No. 6.

Despite these realities, tobacco control advocates still proclaim the biggest of Big Tobacco to be an arch foe that seeks to torpedo cigarette taxes. New cigarette taxes can increase the price charged for Aria, just as they do for Nicorette and NicoDerm CQ and smoking bans support the market for all "Smoke Free" nicotine delivery device products, including the Aria nicotine inhaler. Philip Morris supports smoking bans on its Web site (see pages 3 and 4).

In stark contrast to adversaries, tobacco control appears to be the best friend Marlboro Man ever had.

Quintuple dipping at "Target" consumer's expense does not occur by accident. It is an integral part of a carefully planned, well-organized and generously-funded special-interest enterprise. *Tobacco control's self-dealing advocacy is adverse to the interests of consumers and bond holders and is ultimately adverse to the interests of states and taxpayers.* Will voting taxpayers be fairly informed of those facts by the campaign for California's Tobacco Tax Act of 2006?

### Regarding Cost of Nicorette

Nicorette Users Guide, Page 15

January 6, 2006 Purchase

**“Is Nicorette more expensive than smoking?”** The total cost of Nicorette for the twelve week program is about equal to what a person who smokes one and a half packs of cigarettes a day would spend on cigarettes for the same period of time. Also, use of Nicorette is only a short term cost, because of the health problems smoking causes.”

#### Washington Nicotine Gum Costs (Nicorette)

Total Retail Cost Paid For Box: \$55.48

Cost Includes \$4.49 in Sales Tax

Total Retail Cost To Consumer: \$55.48

Sales Tax Paid: \$ 4.49

Revenue To GlaxoSmithKline: \$50.99

Cost per each of 110 units in box: 50.44 Cents

#### Washington Cigarette Costs (Marlboro)

Total Retail Cost Paid for Carton: \$57.65

Cost includes \$4.66 in Sales Tax

<u>Charge</u>	<u>Amount</u>	<u>Sales Tax On Tax (Cents)</u>
Fed. Excise Tax:	\$ 3.90	34.3
State Excise Tax:	\$20.25	178.2
<u>MSA Cost:</u>	<u>\$ 4.50</u>	<u>39.6</u>
Sub Total:	\$28.65	252.1
Sales Tax on Product:		\$ 2.14
<u>Sales Tax on Taxes &amp; MSA Cost:</u>		<u>\$ 2.52</u>
Sales Tax Sub Total:		\$ 4.66
Revenue To Philip Morris:		\$ 24.34
Cost for each of 200 units in carton:		28.83 Cents

### The Source of Cigarette Tax Increase Advocacy

#### **“Taking on Tobacco: The Robert Wood Johnson Foundation’s Assault on Smoking,”** November 2005

Page 8: “. . . the new tobacco-control clearinghouse was named the National Center for Tobacco-Free Kids®. . . the Robert Wood Johnson Foundation authorized a grant of \$20 million. (In 1999, a renewal grant of \$50 million was approved for the period April 1999 to March 2004. Its third, and last, grant is for \$14 million, which expires in 2007.)”

Page 9: “The Center seeks to broaden public and institutional support for state-level policy change, such as increasing excise taxes on tobacco products, expanding protections against secondary smoke, and assuring that states will use their money from the \$209 billion settlement with the tobacco industry for comprehensive prevention programs. The Center also is working to broaden public support for the regulation of tobacco by the FDA.” (Underline added.)

### Reasons For Cigarette Tax Increase Advocacy

Johnson & Johnson subsidiary ALZA Corp. manufactures NicoDerm CQ for GlaxoSmithKline. As of March 31, 2006 *Yahoo Finance* reports the Robert Wood Johnson Foundation owns 61 million shares of Johnson & Johnson, valued at 3.6 billion. In Washington, I-773 – endorsed and financially supported by the Center for Tobacco Free Kids – added 60 cents per pack new cigarette taxes in 2001. The Washington legislature added 60 cents per pack more cigarette taxes in 2005. Those tax increases added \$12.00 in new taxes per carton. Between June 2000 and January 2006 the per unit cost of Nicorette increased \$12.06 per box. The foundation invests \$84 million in grants to the National Center for Tobacco-Free Kids, to secure economic return on \$3.6 of Johnson & Johnson stock through Parity Pricing Nicorette with Marlboro.

That’s quite alright with Marlboro Man and UST smokeless tobacco. He comfortably sits back in the saddle, while enjoying profits from the difference between Other Tobacco Products (OTP) taxes and higher cigarette taxes, while Parity Pricing Skoal Dry and Taboka brands.