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Higher Tobacco Taxes Would Hurt Working Americans

I am William I. Campbell, President and Chief Executive Officer of Philip Morris USA, the domestic tobacco division of Philip Morris Companies Inc. Philip Morris USA is the nation's leading cigarette company. We employ 17,000 people and our products represent 42 percent of the cigarettes sold in this country. The continued success of Philip Morris and the rest of the tobacco industry is important to everyone in the United States -- smoker and non-smoker alike.

Tobacco has played a vital role in the American economy for hundreds of years. Today it creates, directly and indirectly, about 2.3 million jobs in the United States -- jobs that pay more than \$66 billion in compensation each year. The industry generates more than \$38 billion in tax revenues from tobacco taxes, personal and corporate income taxes, FICA and sales taxes.

Tobacco is also one of the few bright spots in the foreign trade picture. American cigarettes are universally recognized as the finest and are sought after and enjoyed around the globe. Philip Morris USA's leading brand, Marlboro, is the world's most popular consumer packaged good. As a nation, we export over \$4 billion more tobacco and

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tobacco products than we import -- improving the balance of trade and creating good jobs for American workers.

These figures highlight the fact that tobacco is actually an allied industry with positive impact throughout our economy. Growing tobacco and making cigarettes requires the work of farmers and employees in manufacturing centers, sales and headquarters, and it creates hundreds of thousands of additional jobs among their many suppliers of materials and services. Tobacco product storage and distribution create many additional jobs in the transportation and warehouse industries; marketing tobacco creates thousands more in companies ranging from advertising agencies to convenience stores.

One way to get a sense of the importance of tobacco to our economy is to examine what would happen if the Clinton Administration got its proposed 75-cent per pack increase in the federal excise tax on cigarettes. Based on analyses of data collected by the accounting firm of Price Waterhouse, the Administration's 300-percent tax hike would cost about 84,000 people their jobs in the tobacco business, and the jobs of another 190,000 people indirectly employed by tobacco. Many of these 274,000 American jobs are held by men and women like you who are part of the labor movement in this country.

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To put these job-loss estimates in perspective, consider the disruption caused by the loss of some 54,000 jobs as military facilities are closed across the country. As painful as those job losses are, they amount to only 20 percent of the number that will be lost if the Administration succeeds in getting its proposed tobacco tax increase.

The management and employees of Philip Morris USA fully understand the implications of the excise tax hike proposal. On March 9, I was privileged to join almost 20,000 tobacco workers in a historic march on Washington, D.C. Besides the sheer numbers of people who showed up to protest the tax hike, I was impressed with the solidarity of workers and management.

Philip Morris USA has excellent relations with the unions that represent its employees -- including the International Association of Machinists and Aerospace Workers and the Bakery, Confectionery and Tobacco Workers International Union -- but the march on Washington transcended mere cooperation. It reflected a spirited solidarity of the entire tobacco industry -- farmers, unions, management and industry suppliers.

Tobacco companies that compete in the marketplace joined forces to march and fight the proposed tax hike. Despite fierce competition in the industry, but most of our major

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competitors, including R. J. Reynolds, sent representatives to the march.

I believe this solidarity among different companies and labor and management indicates the strength of feeling against a grossly unfair tax hike proposal.

The Americans who marched on Washington happen to have personal stakes in the tobacco industry. In the larger picture, tobacco plays a central role in the national economy in terms of the jobs it provides and the taxes it generates. And when you add our consumers to the picture -- some 50 million adults who choose to smoke -- the vast scope of the industry begins to come into focus.

Some legislators have not yet focused on the big picture. They see tobacco as a convenient and inexhaustible source of revenue. Others would like put us out of business.

Although we at Philip Morris strongly support the Administration's goal of health care reform, we believe it would be wrong to single out one group of consumers -- smokers -- for the only health care related tax increase. If a new health care program will benefit everyone, everyone should be willing to help pay for it.

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We also feel it would be wrong to single out one industry -- the tobacco business -- to help every other business deal with rising health care expenses.

It would be wrong to single out one region of the country -- southern states that rely heavily on tobacco farming -- for job losses.

And finally, it would definitely be wrong to single out low- and middle-income Americans to pay considerably more than their fair share of the costs of universal health care. The proposed cigarette tax hike would do just that because, of all the available options, excise taxes are the most regressive. In other words, the tax hike would strike working people much harder than the rich. According to economists, a person earning less than \$10,000 a year pays up to 27 times more in excise taxes, as a percentage of income, than a person earning \$200,000.

That simply isn't fair. But rather than make the tax system more progressive, this tax hike would increase the tax burden on working Americans.

To make matters worse, most of the people who would lose their jobs in the wake of the tax hike would be workers; convenience store clerks, warehouse employees and truck drivers, for example, would be especially hard-hit. Many

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public policy issues are subject to disagreement, but we can all agree on one thing: swelling the ranks of the unemployed will not solve the nation's health care crisis.

Furthermore, unreasonably high cigarette taxes would create new opportunities for crime in this country, just as they did in Canada. With a stroke of his pen, President Clinton would increase the value of each semi trailer of cigarettes by \$120,000 -- and increase the temptation to thieves and hijackers accordingly. The incentives for cigarette smuggling would also increase dramatically. According to some estimates, one in four cigarettes sold in Canada was bootleg -- until that country rolled back its prohibitive cigarette tax rates this year.

Illegal cigarettes were being sold out of car trunks, totally out of the control of the Canadian government, so minors found it easier than ever to get hold of tobacco. Hundreds of thousands of otherwise law-abiding Canadians were pouring money into a black market and fueling a crime wave that was becoming increasingly violent.

We would be wise to learn from our neighbors to the north. They found that rising cigarette taxes produce diminishing returns and expensive, unforeseen consequences. I believe we have already reached that point in this country.

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In some localities, cigarette taxes now account for more than 40 percent of the retail price.

We must insist that Congress deal honestly with health care financing. If the general public is not willing to help pay for a particular health care program, legislators need to come up with a better program -- not a financing method that strikes at those Americans who happen to be politically vulnerable or who choose to use a legal product that makes them "politically incorrect."

We will continue to fight for our industry and for our consumers, suppliers, retailers and, of course, our stockholders -- who happen to include the pension funds of hundreds of thousands of working Americans.

We can't win the fight alone, however. We need the help of everyone who believes adults should continue to have the right to enjoy tobacco without unfair restrictions or taxation -- and the right of American workers to manufacture, distribute and sell cigarettes and other legal products to adults.

I am asking all Americans who support these rights to write to their representatives and senators on Capitol Hill, strongly opposing the excise tax hike on tobacco products. One brief, polite, hand-written note to a legislator is worth

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a hundred pre-printed postcards. A lobbyist can represent an industry's position on an issue, but a constituent represents a vote. And for elected officials, the only thing that counts in the final analysis is the vote.

Health care reform may be the largest and most important government program since Social Security. It deserves a fair, reliable, sensible source of funding.

The tobacco business is one of the largest and most important industries in the nation. The people who rely on the business for their livelihoods, and the people who enjoy tobacco, deserve fair treatment in the halls of Congress.

If the public will stand up for fairness, I believe the government will join them. By joining together and speaking with one voice, we can stop this tax hike.

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