




MEMORANDUM

TO: A. Pasheluk
S. Smith

FROM: D. Todd 

DATE: November 7, 2000

SUBJECT: New York State Tax Increase

The following report summarizes the impact of New York State's 3/1/00 cigarette excise tax increase on the industry, cigarette manufacturers and specific brands. This update encompasses the 9 months ending September 2000.

Background

Effective March 1, 2000, the cigarette tax in New York State was raised from 56¢ to \$1.11, an increase of +55¢ or +98%. This makes New York's cigarette tax the highest in the nation.

Soon after this tax increase, the New York Department of Tax and Revenue announced that they would also actively begin enforcing the 1985 Cigarette Marketing Standards Act (CMSA) requiring all retail cigarette promotions be available to every store in the state.

As a result, tobacco manufacturers initially opted to remove all retail non-off-invoice price promotions from New York stores. Then, beginning in July, the major manufacturers began introducing promotions into New York that were in compliance with CMSA guidelines.

Executive Summary

For the 9 months ending September 2000, total industry year-to-date EXCEL volume in New York State was down -8.2% compared to YAG. The remaining U.S. had a decrease of -0.2% in EXCEL volume for the same period.

Volume has not increased significantly in the states surrounding New York as a result of the 3/1/00 tax increase. Of the five states adjoining New York, only Massachusetts (+76 million units), Vermont (+27 million units) and Connecticut (+4 million units) had greater EXCEL volume YTD September 2000 versus last year. This increase is insignificant compared to the loss of volume in New York State (-1.453 billion units). EXCEL data do not account for the balance of New York's volume loss.

Native American outlets in New York State have seen a significant increase in volume, as they are not subject to the State's \$1.11 per pack excise tax. Year-to-date September 2000 volume in these outlets is up for minor manufacturer brands (+92 million units or +44%) and the major tobacco companies (+441 million units or +33%) compared to a year ago.

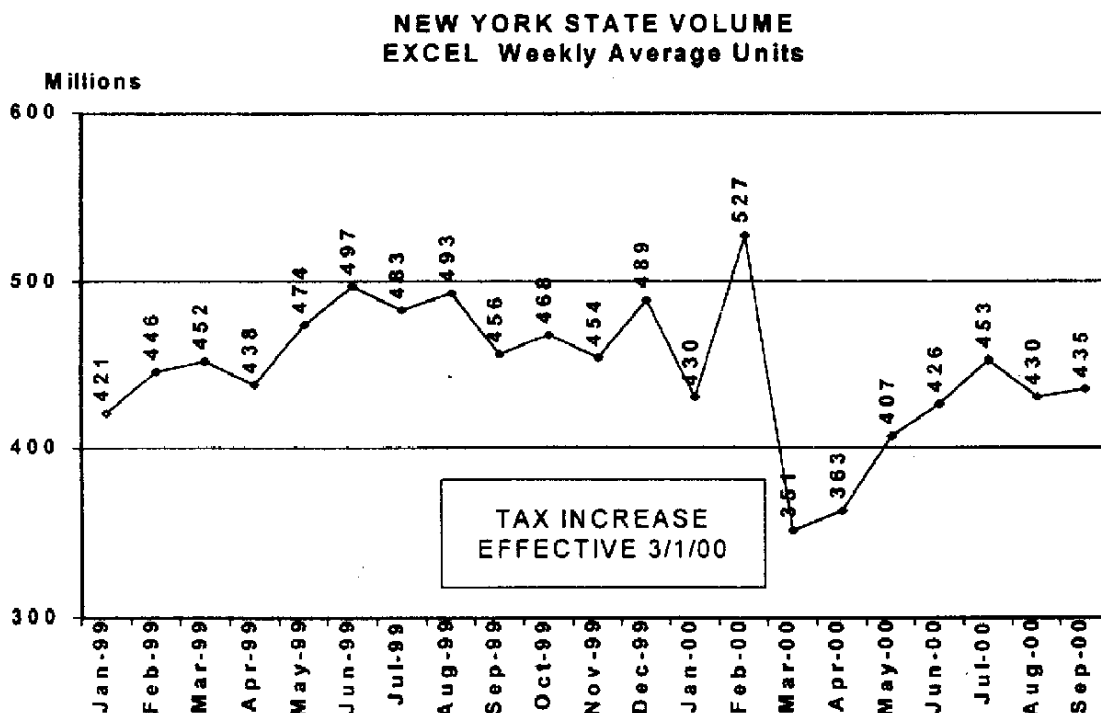
For year-to-date September 2000, share in New York has shifted from full price to private label and minor manufacturer brands (lowest retail price) compared to a year ago. Private labels increased by +1.20 points and minor manufacturer brands were up +3.04 points compared to YAG. This is a total share gain of +4.24 points for the lowest-priced retail brands.

Month-to-month EXCEL share data for New York indicate that the full price segment took share from discount brands in September. Compared to the prior month, the full price segment was up +0.83 point, while generic, private label and minor manufacturer brands all lost share. This traces to reinstatement of retail promotions in New York by the major companies.

Detailed Findings

Total Industry

The following graph tracks average weekly EXCEL volume in New York State from January 1999 through September 2000.



In anticipation of the 3/1/00 cigarette excise tax increase, New York State retailers loaded inventory during February 2000 as shown on the preceding graph. As a result, average weekly EXCEL volume in New York State then declined sharply in March of this year.

In the months April through July, average volume in New York recovered steadily each month. July's volume (453 million units) may reflect some amount of inventory loading prior to the August 1st industry-wide price increase, followed by a volume dip in August (430 million units) tracing to burn off of existing supplies of cigarettes.

September's average weekly volume (435 million units) shows that volume in New York State is trending upward again following August's burn-off of existing supplies of cigarettes.

For the 9 months ending September 2000, weekly average EXCEL volume in New York State was down -8.3% compared to YAG. The remaining U.S. had a decrease of -0.2% in weekly average EXCEL volume for the same period.

Volume in Surrounding States

After the March 1st excise tax increase, it was possible that New York State consumers might go to adjoining states to purchase substantial amounts of cigarettes at lower prices. EXCEL data indicate volume in surrounding states has not increased significantly as a result of New York's tax increase, and therefore, available EXCEL data do not account for the volume loss in New York.

The table below compares EXCEL industry volume for year-to-date August 2000 versus a year ago in New York State and the neighboring states of Pennsylvania, New Jersey, Massachusetts, Connecticut and Vermont.

Massachusetts (+76 million units), Vermont (+27 million units) and Connecticut (+4 million units) had greater EXCEL volume YTD September 2000 versus last year, but this increase is insignificant compared to the loss of volume in New York State (-1.453 billion units).

	EXCEL Industry Volume (billions)						
	NY	PA	NJ	MA	CT	VT	Remain. U.S.
State Excise Tax per Pack	\$ 1.11	\$ 0.31	\$ 0.80	\$ 0.76	\$ 0.50	\$ 0.44	N/A
YTD September 1999	17.986	15.336	7.416	5.183	2.928	0.808	259.300
YTD September 2000	16.532	15.292	7.282	5.259	2.932	0.835	258.661
Vol. Change	-1.453	-0.043	-0.134	+0.076	+0.004	+0.027	-0.640
% Change	-8.1	-0.3	-1.8	+1.5	+0.2	+3.4	-0.2

Native American Reservations

The table on the next page compares New York's YTD September 2000 EXCEL volume and share trends to a year ago in Native American Reservations versus Remaining Outlets for minor manufacturers and the five major tobacco companies.

Native American Reservations in New York are not subject to the \$1.11 per pack excise tax, and they account for 11% or 2.073 billion units of the State's September YTD 2000 total volume of 18.605 billion units.

In New York, 21% of Minor Manufacturers' YTD September 2000 sales are coming from Native American Reservations which is more than twice their contribution to the five Major Companies at 10%. (Please see boxed areas of the table in the "Sales" column.)

However, the rate of growth for minor manufacturers in Native American outlets (+44%) was significantly less than their growth in New York's remaining outlets (+67%). (See the boxed areas of the table under Minor Manufacturers in the "% Chg. Vs. YAG" column.)

New York EXCEL Trends - YTD September 2000

	Sales (billions)	Vol. Chg. Vs. YAG	% Chg. Vs. YAG	SOM	Pt. Chg. Vs. YAG
<u>Minor Manufacturers</u>	1.429	0.545	62	7.68	3.16
Native Amer. Res.	0.303	0.092	44	14.60	0.95
Remaining Outlets	1.126	0.453	67	6.81	3.07
Nat. Am. % Total	21				
<u>5 Major Manufacturers</u>	17.176	-1.466	-8	92.32	-3.16
Native Amer. Res.	1.770	0.441	33	85.40	-0.95
Remaining Outlets	15.406	-1.906	-11	93.19	-3.07
Nat. Am. % Total	10				

Price Segments

The table below compares YTD September 2000 EXCEL SOM to a year ago for all price segments in New York State versus the remaining U.S.

	EXCEL SOM			
	Total Full Price	Major Co. Generics	Major Co. Priv. Lbis.	Minor Man. Discount
<u>U.S. less New York</u>				
9 Mos. Sep 00	72.63	20.41	2.84	4.12
Vs. YAG	0.27	-1.80	-0.06	1.60
<u>New York</u>				
9 Mos. Sep 00	80.19	10.62	2.91	6.27
Vs. YAG	-1.79	-2.44	1.20	3.04
Jan 00	81.42	11.53	1.98	5.06
Feb	83.05	10.31	1.83	4.81
Mar	78.76	12.35	2.81	6.08
Apr	78.48	11.91	2.93	6.68
May	79.38	10.91	3.10	6.61
Jun	79.42	10.31	3.44	6.83
Jul	80.55	9.37	3.34	6.74
Aug	79.27	9.84	3.84	7.06
Sep	80.10	9.58	3.29	7.03

For year-to-date September 2000, share in New York has shifted from full price and major company generics to private label and minor manufacturer discount brands (lowest retail price) compared to a year ago. Specifically, private labels increased by +1.20 points and minor manufacturer discount brands were up +3.04 points compared to YAG. This is a total share gain of +4.24 points for the lowest-priced retail brands. (See boxed area of the table under New York in the "Vs. YAG" row.)

High retail cigarette prices in New York State negatively affect SOM in the full price segment. For YTD September 2000, segment share in New York decreased -1.79 points compared to YAG while in the remaining U.S. this segment grew +0.27 point.

Month-to-month shares reflect recent efforts in September to implement new retail promotions in New York conforming to CMSA guidelines. Specifically, the full price segment in New York

for September was 80.10 points, an increase of +0.83 over the previous month. This illustrates the positive impact of retail promotions on the full price segment as Marlboro, Parliament and Camel were promoted at retail during September.

Lorillard

Lorillard's year-to-date SOM trend is declining in New York (-0.58) and the remaining U.S. (-0.64). (See boxed areas in the column labeled "Total LLD".) This share loss can be traced to Old Gold (-0.42 in New York versus -0.12 in the remaining U.S.) and Maverick (-0.09 versus -0.55). (See boxed areas in columns labeled "Old Gold" and "Maverick".)

EXCEL SOM

	Total LLD	Newport	Old Gold	Maverick	All Other LLD
U.S. less New York					
9 Mos. Sep 00	8.89	6.85	0.55	0.73	0.76
Vs. YAG	-0.64	0.20	-0.12	-0.55	-0.17
New York					
9 Mos. Sep 00	19.09	16.02	1.06	0.13	1.89
Vs. YAG	-0.58	0.22	-0.42	-0.09	-0.28
Jan 00	19.60	16.18	1.27	0.20	1.95
Feb	20.04	16.95	1.01	0.17	1.91
Mar	15.79	12.50	1.24	0.19	1.86
Apr	19.64	16.07	1.43	0.16	1.98
May	19.54	16.31	1.20	0.10	1.93
Jun	19.54	16.66	0.87	0.08	1.92
Jul	19.45	16.78	0.75	0.07	1.85
Aug	18.43	15.70	0.87	0.08	1.78
Sep	18.69	15.86	0.93	0.10	1.81

When New York's excise tax increased in March, Newport's share dropped to 12.50, but the brand's share recovered quickly averaging 16.45 for the next 4 months (April through July). Newport share fell again in August to 15.70 in the face of BIGIF promotions for Marlboro Menthol and Salem, but the brand gained share in September ending up at 15.86 points or +0.16 point versus the prior month. (See the shaded area for September in the table under the "Newport" column.)

The \$5.50/carton buydowns implemented for Old Gold and Maverick during August continue to have a positive impact on the shares for both brands, as it appears they are making a recovery in New York. (See the shaded areas for September in the "Old Gold" and "Maverick" columns.)

Promotional efforts in New York since the 3/1/00 tax increase:

August } Old Gold - \$5.50 / carton buydown
 September } Maverick - \$5.50 / carton buydown

Key Competitors and Brands

This section of the report summarizes share trends in New York State for key competitors and brands. Month-to-month shares illustrate recent efforts to implement new retail promotions in New York conforming to CMSA guidelines. Please see each company's section for share trends and retail promotions in New York for the key brands.

Philip Morris

PM's year-to-date SOM trend is declining in New York (-0.82) but increasing in the remaining U.S. (+0.73). (See boxed areas in the column labeled "Total PM".) Weaker trends in New York trace to Marlboro NM (-1.24 in New York versus +0.74 in the remaining U.S.) and Basic (-0.48 vs. +0.18). (See boxed areas in the columns labeled "Marlboro NM" and "Basic".) Marlboro non-menthol in New York for September had a 32.27 share, representing an increase of +2.42 points over August. This traces to retail shipments in advance of the Marlboro NM B2G1F promotion scheduled for October.

EXCEL SOM

	Total PM	Marlboro NM	Marlboro Menthol	Parliament	Basic	All Other PM
U.S. less New York						
9 Mos. Sep 00	50.43	35.09	2.67	0.73	5.25	6.24
Vs. YAG	0.73	0.74	0.59	0.07	0.18	-1.31
New York						
9 Mos. Sep 00	48.67	31.79	2.86	5.01	2.46	5.83
Vs. YAG	-0.82	-1.24	1.02	0.23	-0.48	-1.06
Jan 00	49.20	32.65	2.21	4.81	2.86	6.67
Feb	50.75	34.67	1.82	5.54	2.52	6.21
Mar	51.11	33.96	3.22	3.93	3.27	6.73
Apr	46.23	28.98	2.67	4.78	2.94	6.86
May	47.42	30.76	2.77	4.74	2.49	6.66
Jun	47.62	31.42	2.28	4.82	2.33	6.76
Jul	48.50	31.33	3.33	5.30	2.09	6.39
Aug	47.89	29.85	3.33	5.30	1.93	6.33
Sep	49.23	32.27	5.43	5.32	1.84	6.37

Promotional efforts in New York since the 3/1/00 tax increase:

March Basic – buydown increased from \$3.50 to \$4.50 / carton (discontinued in April due to CMSA)

July Marlboro Menthol – B1G1F
Parliament – B1G1F

August Marlboro Menthol – B1G1F
Parliament – B1G1F

September Marlboro Menthol & NM – B1G1F
Parliament – B1G1F
(See shaded areas in the table above for September.)

R. J. Reynolds

RJR's year-to-date SOM trend is declining significantly more in New York (-1.77) than the remaining U.S. (-0.28). (See boxed areas in the column labeled "Total RJR".) Compared to last year, all RJR brands are showing greater YTD September 2000 share loss in New York than the remaining U.S., especially Doral (-0.76 in New York versus -0.15 in the remaining U.S.) and Camel (-0.07 versus +0.36). (See boxed areas in the columns labeled "Camel" and "Doral".)

EXCEL SOM

	Total RJR	Winston	Camel	Salem	Doral	All Other RJR
U. S. less New York						
9 Mos. Sep 00	23.31	4.84	5.48	2.95	6.44	3.59
Vs. YAG	-0.28	-0.10	0.36	-0.11	-0.15	-0.27
New York						
9 Mos. Sep 00	13.17	3.20	2.93	2.53	2.15	2.36
Vs. YAG	-1.77	-0.28	-0.07	-0.14	-0.76	-0.51
Jan 00	14.40	3.78	3.07	2.49	2.50	2.57
Feb	13.17	3.20	2.61	2.72	2.41	2.23
Mar	13.99	3.17	2.98	2.48	2.81	2.56
Apr	14.37	3.47	3.27	2.68	2.43	2.51
May	13.31	3.36	2.82	2.65	2.08	2.40
Jun	12.23	2.96	2.89	2.33	1.76	2.30
Jul	11.79	2.94	2.83	2.34	1.52	2.16
Aug	13.15	3.08	3.03	2.74	2.01	2.29
Sep	12.30	2.75	2.92	2.40	1.97	2.26

RJR's promotions in New York State for Camel and Doral during September did not result in share growth for either brand. Camel's share in September was 2.92, a decrease of -0.11 from the previous month while Doral's share was 1.97 or a decrease of -0.04. (See shaded areas for September in the table above.)

Promotional efforts in New York since the 3/1/00 tax increase:

March Doral - B2G1F and \$5.50/carton buydown.

April Camel - B2G1F

August Winston - B1G1F
Salem - B2G1F
Camel - B2G1F
Doral - B1G1F

September Camel - "KEG", a 40 cigarette canister offered in NM king size, Lo-Fi and Lights.
Doral - B1G1F

Brown & Williamson

B&W's year-to-date SOM trend is declining less in New York (-0.87) than the remaining U.S. (-1.74) compared to YAG. (See boxed areas in the column labeled "Total B&W".) Most of this share loss in the remaining U.S. traces to GPC as the brand was down -1.00 point year-to-date versus -0.41 in New York. (See boxed areas in the column labeled "GPC".) For September, B&W had very little retail promotional activity in New York.

EXCEL SOM

	Total B&W	Kool	GPC	Viceroy	All Other B&W
U.S. less New York					
9 Mos. Sep 00	11.60	2.89	3.91	0.68	4.12
Vs. YAG	-1.74	-0.37	-1.00	0.20	-0.57
New York					
9 Mos. Sep 00	9.93	2.40	1.51	0.80	5.21
Vs. YAG	-0.87	-0.41	-0.41	0.30	-0.35
Jan 00	9.60	2.60	1.41	0.59	5.01
Feb	9.23	2.50	1.25	0.61	4.87
Mar	10.34	2.87	1.35	0.64	5.48
Apr	10.22	2.45	1.53	0.74	5.51
May	10.14	2.17	1.62	0.91	5.44
Jun	10.32	2.28	1.70	0.97	5.37
Jul	10.20	2.50	1.62	0.95	5.13
Aug	9.85	2.16	1.62	0.93	5.13
Sep	9.65	2.06	1.50	0.90	5.19

Promotional efforts in New York since the 3/1/00 tax increase:

April GPC – list price reduced by \$5.00/carton.*
 Viceroy – list price reduced by \$5.00/carton.*

July Kool – \$4.00/carton buydown.

* In the 6 months since B&W reduced the list price of GPC and Viceroy, average SOM versus the previous 3 months increased by +19% and +48% respectively.

Liggett

Liggett's year-to-date SOM trend is increasing significantly more in New York (+0.98) than the remaining U.S. (+0.29). (See boxed areas in the column labeled "Total LIG".) Share growth in New York can be traced to Yours private label +0.81 compared to YAG and Sincerely Yours private label +0.42 compared to YAG. (See boxed areas in the columns labeled "Yours" and "Sincerely Yours".)

EXCEL SOM					
	Total LIG	Full Price	Yours	Sincerely Yours	All Other LIG
U.S. less New York					
9 Mos. Sep 00	1.43	0.13	0.01	0.00	1.29
Vs. YAG	0.29	-0.09	-0.03	-0.01	0.41
New York					
9 Mos. Sep 00	2.36	0.21	0.84	0.43	0.88
Vs. YAG	0.98	-0.27	0.81	0.42	0.03
Jan 00	1.59	0.21	0.32	0.21	0.85
Feb	1.44	0.19	0.31	0.21	0.73
Mar	2.20	0.23	0.67	0.42	0.87
Apr	2.29	0.23	0.78	0.44	0.84
May	2.44	0.21	0.87	0.46	0.90
Jun	2.90	0.23	1.13	0.53	1.01
Jul	2.78	0.21	1.07	0.56	0.94
Aug	3.14	0.20	1.43	0.62	0.89
Sep	2.68	0.20	1.09	0.49	0.89

Promotional efforts in New York since the 3/1/00 tax increase:

Liggett has not had any reported promotional activity in New York since the tax increase. It is assumed the share growth of Yours and Sincerely Yours traces to the normal low prices of these private label brands.

However, it appears that retail promotions introduced in New York by the major tobacco companies have slowed the share growth of Liggett's private labels for September as Yours (-0.34 point) and Sincerely Yours (-0.13 point) both lost share compared to the previous month. (See shaded areas for September in the table above.)

Conclusions/Next Steps

EXCEL share trends in New York indicate YTD September 2000 growth in private label brands and minor manufacturers' discount brands. Retail price increases resulting from the 3/1/00 tax hike may explain part of this trend.

New York State began enforcing the Cigarette Marketing Standards Act (CMSA), and as a consequence, the major tobacco companies temporarily ceased most retail product promotions in the period April through June of this year. It can be assumed this also fueled the share growth of

discount brands in New York

In September, retail promotions in New York for full price products have enabled the major tobacco companies to gain share at the expense of generic, private label and minor manufacturer discount brands.

MPID will continue to monitor cigarette volume in New York State and unless otherwise directed will issue a monthly update with data through October on or about November 22nd.

C:	<i>S. Benson</i>	<i>G. Howell</i>	<i>G. Telford</i>
	<i>B. Caldarella</i>	<i>V. Lindsley</i>	<i>L. Weber</i>
	<i>N. Coggins</i>	<i>M. Orlowsky</i>	<i>J. Young</i>
	<i>S. Enloe</i>	<i>K. Sparrow</i>	<i>S. Zolot</i>
	<i>S. Evans</i>	<i>R. Spell</i>	