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Mayor's Proposed Tax Increase Would Hurt New York City Businesses
Cigarette Tax Increase Would Drive Shoppers and Retail Jobs Outside City Borders

NEW YORK, February 13 - Philip Morris U.S.A. voiced its strong opposition to Mayor Bloomberg's proposal to increase consumer taxes on cigarettes by more than 1700 percent. The Company said the tax increase could hurt New York City by driving shoppers and retail jobs outside city borders.

A tax is a tax

The Mayor has promised not to raise taxes, stating "I can pledge that we will not raise taxes. I think it's exactly the wrong signal to send in a period when you're trying to encourage economic activity. If you want to destroy this city, raise taxes and people will leave, jobs will leave and your total revenue will go down."

"The same logic that the mayor has used to hold all other taxes steady applies to the proposed cigarette tax increase and its impact on shoppers and retail jobs," said Michael Pfeil, Vice President, Communications and Public Affairs, Philip Morris U.S.A. "Increasing taxes on cigarettes will drive adult smokers and retail jobs to lower tax areas."

"The result of this dramatic tax increase will be to encourage commuters to purchase their cigarettes closer to home, to drive New York City residents to cross city lines, turn to the internet and Native American reservations to find lower cost alternatives to these outrageous tax rates," said Pfeil. "Among the hardest hit will be New York City store owners who will lose sales and may be forced to layoff their employees or relocate their businesses to more consumer friendly locations outside of the city."

"As a New York City-based company, we appreciate the severity of the city's fiscal situation and believe that the burden of solving our fiscal problems should be borne by all of us," said Pfeil. "Increasing the cigarette tax, however, will place a disproportionate burden on low income city

residents and many small business owners.”

Incentives to Shop Elsewhere

If the tax increase were passed, it would mean that adults purchasing cigarettes in New York City would pay \$3.39 per pack in cigarette excise taxes alone, not including state and city sales taxes that would be added to the per pack price. New York State’s cigarette excise tax will be increased to \$1.50 per pack on April 3, 2002. The federal excise tax was increased to \$.39 per pack on January 1, 2002. The current excise tax in New York City adds \$.08 to the price per pack, a tax that would be increased to \$1.50 per pack under the Mayor’s proposal. The tax increase is estimated to bring the average retail price of a pack of cigarettes to more than \$7.00 per pack.

According to the National Association of Convenience Stores, cigarette sales represent an average of 35.8 percent of in-store sales in convenience stores. By increasing the incentive for adult smokers to shop elsewhere, this proposal could devastate convenience store businesses in the city who may not have a way to replace the lost revenue. It is also likely to create an incentive to locate new businesses selling just outside of city borders.

Under the proposal, adult smokers who shopped in Westchester, Putnam, Rockland or other counties outside of the city would save \$1.50 per pack or \$15.00 per carton. Adult smokers shopping in New Jersey would save \$3.20 per pack or \$32.00 per carton while those shopping in Connecticut would save \$2.50 per pack or \$25.00 per carton.

Unintended Consequences for State Revenues

The state legislature must approve the city’s plan to increase its cigarette tax. An unintended consequence of approving this increase would be to decrease the revenue available to New York State. If the tax increase reduces the number of cigarettes sold in New York City and drives those sales out of state, New York State could face new revenue shortfalls.

Shared Desire to Reduce Youth Smoking

Philip Morris U.S.A. shares the Mayor’s desire to reduce youth smoking and is committed to playing an active role in helping to make progress on this issue. The company believes that there are a number of ways to reduce the incidence of youth smoking without creating unintended adverse financial consequences for adult smokers and small business owners. The company has been actively encouraging state and local elected officials to consider spending a significant portion of tobacco settlement funds on programs that can reduce and prevent youth smoking. New York State has budgeted millions of dollars to fund anti-smoking efforts while the city has recently cut its funding for such programs.

For more information about the company's products, programs and positions on tobacco-related issues, please visit the Philip Morris U.S.A. web site at www.philipmorrisusa.com.

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