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Stephenson Cancer Center

Why Tobacco Companies Oppose Higher Cigarette Prices

Court Findings from Federal Racketeering Verdict

In 2006, the largest U.S. tobacco companies – including Altria, Philip Morris, and R.J. Reynolds (RJR) – were found guilty of multiple violations of the federal Racketeer Influenced and Corrupt Organizations (RICO) Act. The U.S. Court of Appeals unanimously upheld the district court ruling and, in 2010, the U.S. Supreme Court declined further appeal.

The court found that a “culture of fraud” permeates the tobacco companies’ business practices and, as a result, they “cannot be trusted with the responsibility of identifying and implementing the necessary changes in their own companies,” noting that their goal has been “to make money with little, if any, regard for individual illness and suffering, soaring health costs, or the integrity of the legal system.” The court also found that “the evidence in this case clearly establishes that Defendants have not ceased engaging in unlawful activity...” and “their continuing conduct misleads consumers in order to maximize Defendants’ revenues by recruiting new smokers (the majority of whom are under the age of 18), preventing current smokers from quitting, and thereby sustaining the industry.”

The court’s 1,682 page ruling included 4,088 Findings of Fact, including several related to the companies’ motivations and actions to oppose higher cigarette prices. The following findings are excerpted directly from the court ruling.

- ***3005. A December 6, 1982 Philip Morris report, titled "Price Elasticities, Excise Taxes, and Cigarette Sales," outlined Philip Morris's opposition to raising excise taxes on cigarettes despite studies showing that raising cigarette prices was the most effective way to reduce youth initiation and youth smoking. The report reflected Philip Morris's knowledge that "[t]he main effect of an excise tax increase will be to reduce the number of young people who begin to smoke." Nonetheless, Philip Morris continued to vigorously oppose all cigarette excise tax proposals.***

- ***3007. In a 1994 speech, Philip Morris's Tina Walls congratulated company employees for defeating twenty-seven of thirty-seven government attempts to increase price through excise taxes, stating: "Your batting average on state excise taxes has been outstanding."***

- ***3009. A November 1994 report, titled "Profile of the Young Adult Marlboro Smoker Part 1: Males, 18 to 24 Years Old," shows that, through its continuous smoker tracking survey, Philip Morris researched the price sensitivity of Marlboro male smokers age eighteen to twenty-four by analyzing their sensitivity to promotions such as coupons and “continuity” items (gifts such as tshirts). The report recognized that the biggest threat to Marlboro Red's dominance of the eighteen to twenty-four year old category was possibly discount brands which offered lower priced cigarettes than Marlboro. The report recommended that, in order to counter this threat, Philip Morris should provide coupons and continuity items to these smokers to keep them from switching or, presumably, from quitting smoking.***

- ***3013. Philip Morris Companies' CEO Geoffrey Bible said that he "assumes that young people are sensitive to prices," so smoking incidence would decrease due to price increases.***

- ***3020. In a September 20, 1982 internal memorandum to J.W. Johnston and H.J. Lees, Greg Novak, RJR Group Director of Marketing Services, stated: “Our Forecasting Group has determined that younger adult smokers, particularly younger adult male smokers, tend to be very price sensitive. The effect of a price increase on younger adult male smokers could be three to four times greater than on smokers in general, in terms of negative impact on volume.***