

Why Tobacco Companies Oppose Higher Cigarette Prices

Quotes from Internal Tobacco Industry Documents

Internal tobacco industry documents indicate that cigarette companies' true motivation for opposing higher cigarette prices is the resultant drop in cigarette sales, especially among children and young adults. The following quotes are excerpted directly from internal industry documents made public through the 1998 Master Settlement Agreement.

- ***"My calculations, using a variety of methods, show the price elasticity of cigarettes to be -0.43. This means that a ten percent increase in the retail price of cigarettes will, other things being equal, lead to a 4.3 percent decline in unit sales."***
Philip Morris Research Executive Myron Johnston, "Economic Forecast 1975-1980." Bates #1000739883. 3/3/75.
- ***"It is clear that price has a pronounced effect on the smoking prevalence of teenagers, and that the goals of reducing teenage smoking and balancing the budget would both be served..."***
Philip Morris Research Executive Myron Johnston, "Teenage Smoking and the Federal Excise Tax on Cigarettes." Bates #2001255224. 9/17/81.
- ***"If prices were 10% higher, 12-17 incidence [the percentage of kids who smoke] would be 11.9% lower."***
R.J. Reynolds Executive D. S. Burrows, "Estimated Change In Industry Trend Following Federal Excise Tax Increase." Bates #501988846. 9/20/82.
- ***"In terms of immediate impact, the effect of price on sales 35+ is most important... But, the loss of younger adult males and teenagers is more important to the long term, drying up the supply of new smokers to replace the old. This is not a fixed loss to the industry: its importance increases with time. In ten years, increased rate per day would have been expected to raise this group's consumption by more than 50%."***
R.J. Reynolds Executive D. S. Burrows, "NBER Models of Price Sensitivity by Age/Sex." Bates #503010298. 10/6/82.
- ***"Of all the concerns, there is one – taxation – that alarms us the most. While marketing restrictions and public and passive smoking [restrictions] do depress volume, in our experience taxation depresses it much more severely. Our concern for taxation is, therefore, central to our thinking..."***
"General Comments on Smoking and Health," Appendix I in the Perspective of PM International on Smoking and Health Initiatives. Bates #2023268328. 3/29/85.
- ***"Jeffrey Harris of MIT calculated... that the 1982-83 round of price increases caused two million adults to quit smoking and prevented 600,000 teenagers from starting to smoke... this means that 700,000 of those adult quitters had been PM smokers and 420,000 of the non-starters would have been PM smokers. Thus, if Harris is right, we were hit disproportionately hard. We don't need to have that happen again."***
Philip Morris Executive Jon Zoler, "Handling an Excise Tax Increase." Bates #2022216179. 9/3/87.
- ***"A high cigarette price, more than any other cigarette attribute, has the most dramatic impact on the share of the quitting population... price, not tar level, is the main driving force for quitting."***
Philip Morris Executive Claude Schwab, "Cigarette Attributes and Quitting." Bates #2045447810. 3/4/93.
- ***"When the tax goes up sharply, we all lose volume and profits as many smokers cut back or switch to discount brands."***
Presentation by Ellen Merlo, Vice President, Corporate Affairs, Philip Morris USA. Bates #3990143838. 3/30/94.