

Significant Tobacco Tax Increases Reduce Tobacco Use, Despite Price Discounts and Promotions



Small Tax Increases Are Undermined by Tobacco Companies' Price Discounts and Promotional Efforts

The scientific research is very clear that raising cigarette prices is one of the most effective ways to reduce smoking, especially among kids.¹ The 2014 Surgeon General's Report, *The Health Consequences of Smoking—50 Years of Progress*, stated, "Evidence shows that large tax and, hence, price increases will decrease tobacco use each time they are implemented."² Additional agencies and organizations that have studied and support increasing tobacco product prices to reduce tobacco use include: the National Cancer Institute,³ the U.S. Centers for Disease Control and Prevention,⁴ the Task Force on Community Preventive Services,⁵ the National Academy of Sciences' Institute of Medicine,⁶ the President's Cancer Panel,⁷ the World Health Organization,⁸ and the World Bank.⁹

However, tobacco tax increases will only reduce tobacco use if they lead to a noticeable increase in the price of tobacco products. Several factors can reduce the impact of the tobacco tax increase on public health, including the tobacco companies' price discounting and promotional activities. If the tax increase is small, it can be easily undermined by tobacco industry discounting and promotional strategies so that it will have minimal, if any, effect on reducing tobacco use. For example, a 50-cent coupon was available as an insert on a pack of cigarettes sold in Louisiana after its 50-cent cigarette tax increase went into effect in July 2015, nullifying the increase. If the tax increase is large enough to significantly raise the price so that it cannot be offset by tobacco industry strategies, it will decrease tobacco use, particularly among kids.

Knowing that large price increases reduce tobacco use, tobacco companies spend billions of dollars each year to keep the price of tobacco products low by implementing aggressive price discounting and "retail value added" offers, such as buy-downs (payments to retailers that reduce the price to consumers), coupons, and multi-pack discounts (e.g., buy two packs get one free). These strategies diminish the effect of a tax increase by minimizing the price change so consumers are not deterred from purchasing. And because research shows that youth are much more responsive to price changes than adults,¹⁰ discounting strategies are particularly harmful to kids.

Tobacco Companies Invest Heavily in Price Discounts and Promotional Efforts that Target Kids

- In 2022, the top 5 cigarette companies spent over \$6.9 billion on price discounts for cigarettes (e.g., off-invoice discounts, buy-downs and voluntary price reductions to reduce the price of cigarettes to consumers), accounting for 86 percent of total cigarette company marketing expenditures and making it by far the largest marketing expense category. Cigarette companies spent an additional \$89.5 million on coupons.¹¹ Combined, these discounts amount to 81 cents off every pack of cigarettes sold in the U.S. in 2022.¹²
- Price discounts expenditures by smokeless tobacco companies totaled \$394.3 million (68.9% of all marketing expenditures) in 2022. As with cigarettes, price discounts for smokeless products were the largest expense category. Smokeless tobacco companies spent an additional \$29.9 million on coupons.¹³
- A national study of POS marketing found that more than 80 percent of convenience stores and more than half of supermarkets have special price promotions advertised inside; 42 percent of convenience stores have exterior price promotions. Across all store types, 40 percent have special price promotions for Camel cigarettes advertised inside, 24 percent have price promotions for Marlboro, and 23 percent have price promotions for Newport.¹⁴ These three brands also happen to be preferred by eight out of ten of

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youth smokers—a fact which should come as no surprise, since the U.S. Surgeon General has stated that youth are sensitive to tobacco industry price promotions.¹⁵

- A 2022 study estimated that the industry's spending on price discounts and promotions has kept overall smoking rates at least three percent higher than without the discounts. The researchers noted, "these industry [price discounting and promotional] expenditures will likely...lead to much greater impact, since the discounts are applied to more price-sensitive customers (eg, youth, low income and more frequent users)."¹⁶

In *U.S. v. Philip Morris* (the 2006 civil racketeering judgment against major cigarette manufacturers), the court specifically found that tobacco companies use strategic price reduction strategies such as coupons and multi-pack discounts to target young people.¹⁷

- "Defendants recognize that youth and young adults are more responsive to increases in cigarette and other tobacco prices and will not try smoking or continue to smoke if cigarette prices rise. Despite that recognition, Defendants continue to use price-based marketing efforts as a key marketing strategy."
- "Defendants' price-related marketing efforts, including coupons [and] multi-pack discounts, have partially offset the impact of higher list prices for cigarettes, historically and currently, particularly with regard to young people."
- "Defendants could significantly reduce adolescent smoking by. . .stopping all price related marketing (i.e., discounting and value added offers of cigarettes, especially in convenience stores, where this kind of marketing is concentrated and where young people are more likely to purchase cigarettes."

At the same time as they engage in discounting schemes, tobacco companies raise their product prices by relatively small amounts (about 15-20 cents per pack several times a year), because they know that these amounts will not drive smokers to quit, but can still substantially increase industry profits even as sales are declining. Financial analysts focusing on the tobacco industry refer to tobacco companies' ability to control price as "pricing power" and recognize the importance of price. One investment company stated, "**pricing is a critical driver** of mfr [manufacturer] revenue and earnings growth (note: mfrs realize almost 3x the leverage on earnings from a point of pricing than a point of volume)" (emphasis in original).¹⁸

Tobacco Companies' Price Discounting Increases Smoking, Particularly Among Youth

The 2012 Surgeon General's Report, *Preventing Tobacco Use Among Youth and Young Adults*, reviewed the available research to date regarding tobacco tax increases and price discounting and concluded the following:

- "...the industry's extensive use of price-reducing promotions has led to higher rates of tobacco use among young people than would have occurred in the absence of these promotions."¹⁹ This conclusion expands upon the 1994 U.S. Surgeon General's report, which found that the use of value-added or coupon promotions makes cigarettes more affordable to kids and those with less financial resources. That same report also states that coupons affect new users by encouraging them to smoke more, moving from the trial stage to being a regular smoker.²⁰
- In addition, the Surgeon General found, "Because there is strong evidence that as the price of tobacco products increases, tobacco use decreases, especially among young people, then any actions that mitigate the impact of increased price and thus reduce the purchase price of tobacco can increase the initiation and level of use of tobacco products among young people."²¹

Numerous studies have demonstrated the relationship between tobacco marketing and youth smoking behavior:

- A 2022 systematic review found that tobacco coupons are more often received and used by price-sensitive populations, including youth and youth adults. Because the reviewed research suggested that

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coupon redemption is associated with increased smoking initiation and decreased cessation, tobacco coupons could undermine the impact of tobacco tax increases on reducing tobacco use.²²

- A 2021 study using 2016-2018 data from the government's Population Assessment of Tobacco and Health (PATH) study determined that receiving any tobacco product price promotion "may play an important role in youth's increased tobacco use" after finding an association between these types of pricing strategies and youth (12-17 years old) initiating tobacco use, becoming current users, and ever regular use.²³
- A 2018 study using 2013-2014 PATH data found that one in 13 youth (12-17 years old) had received some sort of tobacco product discount coupon, whether they used tobacco products or not. In addition, the researchers found that youth who received coupons were more likely to try a tobacco product and report past 30-day use one year later than those who did not receive coupons.²⁴
- A study using data from the 2012 National Youth Tobacco Survey, concluded that exposure to tobacco coupons may encourage youth smoking and hinder cessation. Receipt of tobacco coupons was associated with a higher likelihood of being susceptible to cigarette smoking among non-smoking youth, a lower likelihood of feeling confident about quitting among youth smokers, and a higher likelihood of intention to purchase cigarettes among youth smokers and experimenters.²⁵
- A 2007 study in the *Archives of Pediatrics and Adolescent Medicine* concluded that cigarette retail marketing practices and price-based promotions increase smoking initiation and that restrictions on this type of marketing may reduce youth smoking.²⁶ Specifically, the study found:
 - "These findings support previous research that shows price-based promotional offers are particularly appealing to young price-sensitive smokers. Thus, the beneficial effects of higher cigarette prices are undermined when youth are able to take advantage of cigarette promotions. In addition, our results suggest higher cigarette prices are associated with discouraging youth from progressing to established smoking at most levels of smoking uptake."
 - "Overall, our results provide evidence that restricting point-of-sale advertising will discourage youth from trying smoking and policies that increase cigarette prices and/or restrict price-based promotions will have a long-term positive impact by preventing youth from moving farther along the smoking uptake continuum towards regular smoking."
- A 2005 study found that the more the tobacco industry spent on price promotions, the higher the initiation to regular smoking by 14-17 year olds despite price increases by the industry or due to increasing tax rates.²⁷ In other words, the industry was able to dampen the public health benefits of preventing kids from starting to smoke from price increases by making available more promotions that reduced product prices.
- Promotional offers on cigarettes are used by all categories of smokers – especially young adults, women, and African Americans – with 35 percent of smokers using promotional offers every time they saw one.²⁸
- In a report called, *Camel Growth Among Males 18-24 Years Old in the Mid-West*, R.J. Reynolds concluded that "[t]he major factor contributing to CAMEL's dramatic growth among Mid-West 18-24 year old males appears to be the increased level of Mid-West promotional support, and in particular, CAMEL's targeted promotions..."²⁹

Coupons and discounts are also effective in keeping adult smokers smoking. The 2024 Surgeon General's Report, *Eliminating Tobacco-Related Disease and Death: Addressing Disparities*, concluded, "people with lower socioeconomic status are more likely to receive and use a coupon or price discount code to purchase tobacco products compared with...those of higher socioeconomic status. Use of coupons appears to increase the likelihood of tobacco initiation among people who have never used tobacco and to reduce the likelihood of quitting among people who use tobacco." In addition, tobacco products are priced cheaper and more readily available in stores in neighborhoods with more lower income residents.³⁰ Tobacco tax

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increases can benefit this population: the Surgeon General's report also concluded, "The evidence is sufficient to conclude that increases in tobacco product prices will reduce tobacco use to a greater extent among people of lower SES than they do for people of higher SES."³¹

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Significant Tobacco Tax Increases Reduce Tobacco Use, Despite Price Discounts and Promotions

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