

Little Cigars

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How does this affect the States

- Public Health – Undermining public health gains of last decade
- Loss of Revenue – SET, FET, MSA (direct and indirect)
- Inconsistent State definitions – a “bright line” rule benefits everyone

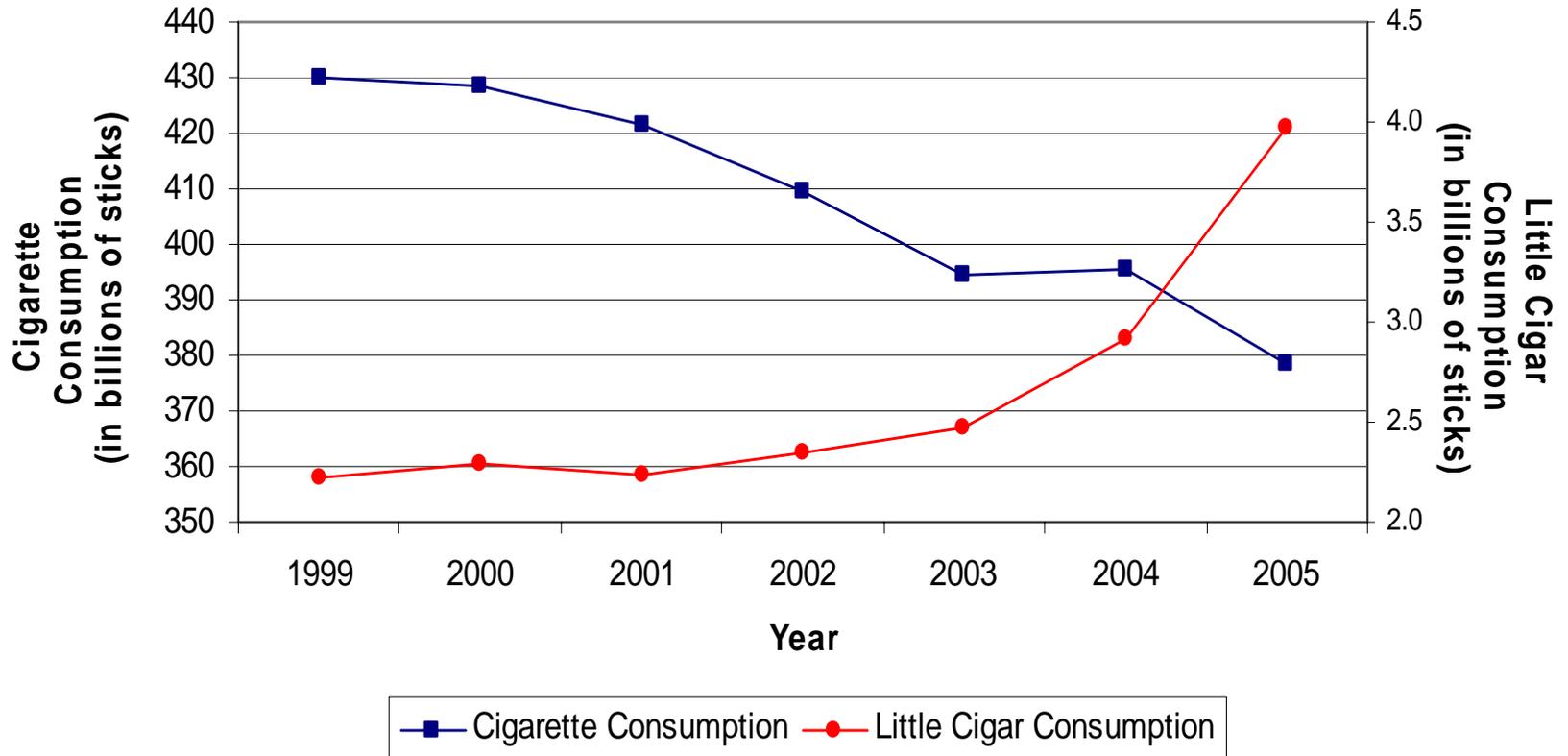
Public Health Concerns

- Evidence that youth are trading cigarettes for little cigars.
- They are cheaper, readily accessible, and sold in small packages or single units.
- Not subject to federal health warning label requirements.
- People believe, incorrectly, that little cigars are safer than cigarettes.

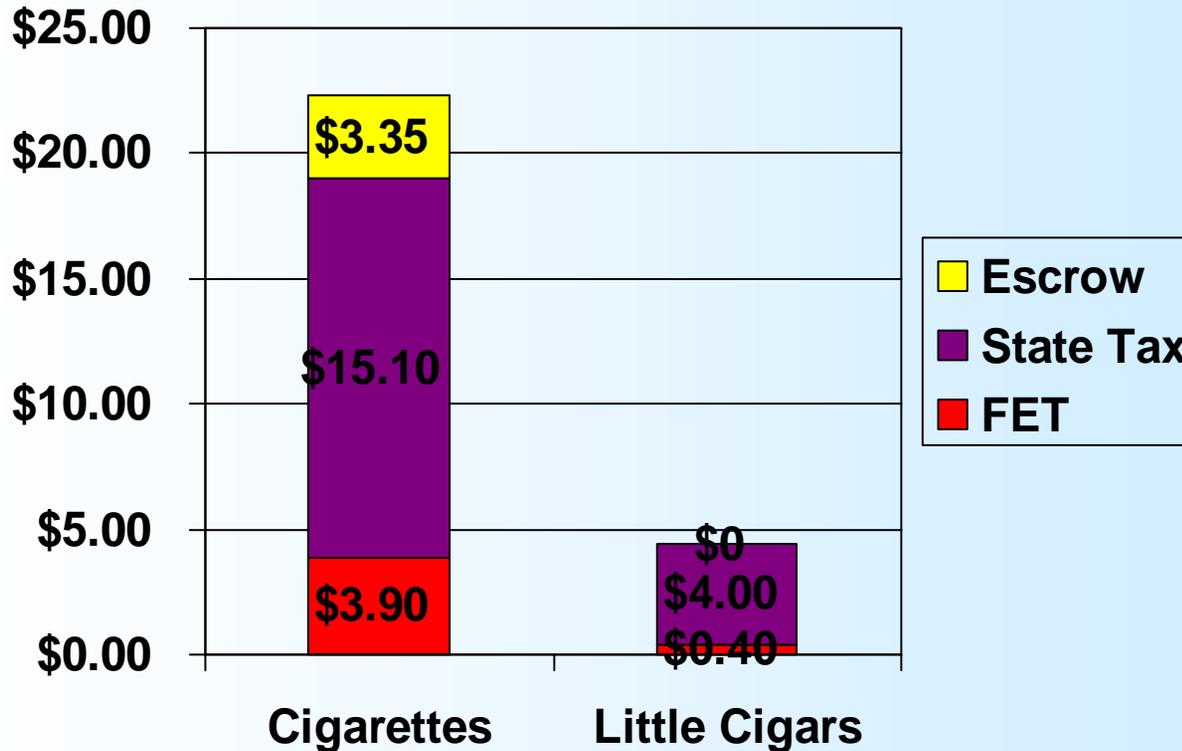
Little Cigars v. Cigarettes

- Recent proliferation of little cigars that are really cigarettes.
- Between 1997 and 2004 imports of little cigars grew by 500% from 34 million sticks to 215 million sticks.
- Little cigar sales increased 95% since 1999 and 85% since 2002.
- Thus far in 2006, little cigar consumption is projected to nearly equal the highest little cigar sales in the US, which was set in 1973.

**US Cigarette/Little Cigar Consumption,
1999-2005**



Cigarettes vs Little Cigars



- Cigarettes – total of \$22.35 per carton (*Using MA State tax rate)
- Little Cigars – total of \$4.40 per carton (*Using MA State tax rate)

Federal Definition of Cigar

- 26 USC 5702(a) defines “Cigar” as:
 - (1) any roll of tobacco wrapped in leaf tobacco or in any substance containing tobacco (other than any roll of tobacco which is a cigarette within the meaning of paragraph (2) of the definition of cigarette.)

Federal Definition of Cigarette

- 26 USC § 5702(b) defines “Cigarette” as:
 - (1) any roll of tobacco wrapped in paper or in any substance not containing tobacco, and
 - (2) any roll of tobacco wrapped in any substance containing tobacco which, because of its appearance, the type of tobacco used in the filler, or its packaging and labeling, is likely to be offered to, or purchased by, consumers as a cigarette described in paragraph (1) of this definition.

Problems with the Definitions

- Current TTB ruling allows manufacturers to self-select the tax classification of the product.
- Current TTB ruling relies almost exclusively on testing of the products.
- Does not look at the advertising or marketing of the product.
- Proliferation of products that are brown cigarettes.

States Petition the TTB

39 States and one territory petitioned the TTB in May 2006 to adopt new rules to define cigar and cigarette

Anxiously awaiting the TTB's proposed rules.