



OHIO WHOLESALE MARKETERS ASSOCIATION

88 East Broad Street, Suite 1240 • Columbus, Ohio 43215

phone 614.224.3435 • email owma@att.net

Testimony on the State Budget (HB49)

Beth Wymer, Executive Director

House Finance Committee

April 5, 2017

Chairman Smith and members of the House Finance Committee, thank you for the opportunity to provide my membership's perspectives on the tobacco category tax increases proposed in House Bill 49, the FY '18-'19 state budget.

The Ohio Wholesale Marketers Association's core membership is wholesalers who supply products to convenience stores (c-stores), mom-n-pop corner stores and similar retailers. With few exceptions, the Association's distributor members are Ohio-based family-owned businesses that have served their communities for one or more generations. Wholesalers to c-stores are high volume low profit margin businesses, with the typical wholesaler having a pretax profit margin of about one percent.

These wholesalers sell much more than just tobacco, but the tobacco category-- which includes cigarettes and all other tobacco products--accounts for 70 to 80 percent of a typical wholesalers overall sales volume. For the smallest wholesalers, the category can be up to 90 percent of overall sales.

Cigarette and tobacco product taxes are not collected in stores at the register. These taxes are collected and remitted at the wholesale level so consequently, tax increases have an immediate and direct impact on these wholesale businesses.

Wholesaler Cash Flow

Knowing a little about wholesaler cash flow is important to understand how these businesses are uniquely impacted by tobacco tax increases.

The manufacturer-wholesaler relationship is outside of the scope of your responsibility as policy makers. However, it's important for you to know that the products you are taxing at the wholesale level are also subject to manufacturer mandates that impact the wholesaler's cash flow and overall business.

Major manufacturers require that wholesalers pay for cigarettes before they're delivered to the wholesaler's facility, with payment terms ranging from three days in advance of delivery to payment on delivery. Popular brands of cigarettes at today's manufacturer list price to the wholesaler cost \$2630/case (60 cartons) and a typical small wholesaler is running almost 600 cases of cigarettes through their warehouse each month. Midsize wholesaler volume is about 2000 cases of cigarettes per month.

In addition to manufacturer prepayment terms, wholesalers deal with minimum quantity requirements on their orders. Two years I shared the example of a tobacco product manufacturer announcing that orders must meet a 1000 case minimum at an average cost of \$430,000 per order. Those types of requirements put an immediate squeeze on cash flow and they aren't unique to tobacco manufacturers. Some manufacturers of popular candy/snack brands, whose products also go through my members warehouses, have bracket pricing and minimum orders.

The point is, as manufacturers are working to improve their efficiencies and bottom lines, the wholesaler's ability to maintain positive cash flow is constantly challenged. Tax increases on the segment of their business that represents 70 to 90 percent of overall sales mean additional cash flow challenges for wholesalers.

Tax Related Cost Impacts for Wholesalers

Wholesaler Costs for Tax Stamps: OWMA's wholesalers are the state's tax agents and front end payers of the cigarette tax. The tax is an immediate tax on wholesalers who must buy cigarette excise tax stamps from the state and apply the stamps to each pack of cigarettes before selling the product to retailers. The stamp is proof that the tax has been paid.

At today's tax rate of \$1.60/pack, one roll of tax stamps costs the wholesaler \$48,000 (*minus the wholesaler stamping compensation*). The proposed tax increase to \$2.25/pack will take one roll of stamps to \$67,500. A midsize wholesaler needing 40 rolls of tax stamps per month will see their monthly cost for tax stamps jump from \$1.88 million to more than \$2.67 million. OWMA's largest wholesaler reports needing more than 400 rolls of tax stamps per month, which will be at a cost of more than \$26 million.

Cigarette Tax Stamp Costs: Pre-2015 Cigarette Tax Increase vs. Current vs. HB 49

	Avg Cases Monthly	# Tax Stamp Rolls Needed	Monthly Tax Stamp Costs*		
			Cost Pre-2015 Cig. Tax Increase	Current Cost	HB 49 Cost
Small Wholesaler	600	12	\$441,900	\$565,632	\$801,900
Mid-Size Wholesaler	2000	40	\$1,473,000	\$1,885,440	\$2,673,000

**monthly tax stamp cost reflects wholesaler stamping compensation applied to rolls purchased*

Risk of loss from unpaid accounts/account receivables: There is no law requiring that wholesalers be paid on delivery for cigarettes or other tobacco products (there is such a law for beer/wine) so based on payment terms with retailers, it's about 14 to 20 days from the time the manufacturer debits the wholesalers bank account for the cost of the products until the wholesaler is paid by the retailer; during this time, the wholesaler carries the entire cost of the product and the excise tax. Increasing the tax increases the value and risk of nonpayment associated with the wholesaler's account receivables. Wholesalers are still obligated to remit the taxes to the state, even if the retailer doesn't pay for the taxed product.

Insurance on the State's Tax, ie on stamps in inventory. Higher tax rates mean higher costs to insure stamp rolls in the warehouse. Increasing the tax increases the value of the tax stamped cigarettes in the warehouse and when they are out on delivery trucks to retailers.

Insurance on the State's Tax, ie on stamps in transit. Two years ago, the Tax Department notified wholesalers that if tax stamps were lost in transit from the state to the wholesaler, the wholesaler would be responsible for the full face value of the stamps. Higher tax rates mean higher costs to insure the stamps in transit. At this point, wholesalers can pick up their stamps from the Tax Department which is not logistically feasible for everyone, use the FedEx or UPS provided coverage that is more than \$300/roll of stamps, not insure the stamps and risk an uncovered loss or get coverage in the market which has been a challenge and is still expensive.

Loss from Theft Please see Attachment 3 for examples.

Stamping Compensation

Last fiscal year wholesalers remitted \$944 million in cigarette taxes to the state. These are not the wholesalers' taxes --- these are the state's taxes and the wholesalers are doing a service for the state at significant cost to their businesses.

When wholesalers buy the tax stamps from the state, their cost per roll is the full value of the roll minus 1.8%. This 1.8% is compensation to the wholesalers for their costs associated with being the state's cigarette tax payer. Their costs include FedEx/UPS shipping charges to get the stamps from the state; insurance on stamps as outlined previously; cigarette stamping machine costs including maintenance and insurance on the machines, supplies needed for the machine and electric to run the machine; personnel; and monthly cigarette tax return filings with the state to report stamps bought and stamps used.

All of the stamping related costs mentioned increased between 2005 and 2015 when then tax rate was \$1.25. In fact, the state stopped paying the shipping costs of stamps and shifted those costs to the wholesalers in that time, and it was early 2015 when the state told wholesalers that they would be liable for payment of stamps lost in transit which resulted in added insurance costs. All of this without the wholesalers receiving more compensation for their costs.

Now HB 49 reduces the wholesaler compensation by applying the 1.8% stamping compensation to only \$1.25, rather than applying it to the full value of the tax. Using the proposed tax rate and capping the compensation vs applying it to the full value of the tax, this is actually a cut of more than 40 percent in the wholesaler stamping compensation. Wholesalers are not making money on the stamping compensation, but it does rightfully help cover their costs and it should remain at 1.8% of the full amount of the tax, ie full value of the stamp.

Other Tobacco Products

Other tobacco products (OTP) are everything containing tobacco except cigarettes and the tax is calculated on the manufacturer price to the wholesaler. The wholesaler remits the tax each month based on shipments they received from manufacturers the prior month. As with cigarettes, wholesalers are the frontend tax payer and tax agents for the other tobacco products tax and if the retailer doesn't pay for the tobacco products the wholesaler is still obligated to remit the tax to the state.

One of the biggest challenges and frustrations when it comes to OTP is the reality of untaxed OTP getting into Ohio from lower taxed states. OTP traffickers sell to retailers who know they are buying untaxed product. They also buy some of the same product from a taxpaying wholesaler, just so they'll have an invoice available if enforcement agents stop by, and they mix the untaxed product in with the taxed product. It's very easy, very profitable and very hard to detect.

House Bill 49 triples the OTP tax rate --- taking it to 69% -- which increases wholesaler risk of loss from unpaid accounts/account receivables and increases insurance costs on inventory. Tripling the tax rate also does nothing more than give the already illegal operators more incentive to come into Ohio, and it will put Ohio's taxpaying wholesalers at more of a disadvantage all while costing the state tax revenue that should otherwise be collected.

House Bill 49 also complicates administration of the OTP tax at the warehouse level. Today, the OTP category is taxed at the same rate. Wholesalers multiply the amount invoiced by the tax rate and send it to the state with their detailed tax return. The exception to this is little cigars which are taxed at a higher rate and therefore require a separate schedule with the monthly OTP return. Implementing the different rate on little cigars was not easy at the wholesale level and at times there is still confusion about what is a little cigar for tax rate purposes. House Bill 49 returns little cigars to being taxed at the same rate as the rest of the OTP category, but it breaks out large cigars and caps the tax at \$2 per cigar if it meets the new large cigar definition. At the wholesale level, this means changing inventory controls to break out large cigars from the rest of the OTP category. Which cigars meet the definition? Based on the price point, which can change for the same unit, does the percentage based tax or the \$2 per cigar tax apply? Any error in product classification or the applied tax rate could result in penalties against the wholesaler. One rate for the entire OTP category is the simplest and most efficient way to apply the tax at the wholesale level. One rate is also easier to manage from an audit perspective, and wholesalers do have OTP audits from the state.

Last fiscal year wholesalers remitted \$63.4million in other tobacco product taxes to the state. Just like with cigarettes, these are not the wholesalers' taxes --- these are the state's taxes and the wholesalers are doing a service for the state at a cost to their businesses. House Bill 49 eliminates the 2.5% that wholesalers retain when they remit the OTP tax to the state. As the front end tax payers and tax agents for the other tobacco products tax, wholesalers incur costs that include insurance on the tax as part of the product in inventory and costs associated with monthly tax report filings. Wholesalers are currently preparing their computer systems to compile and file their monthly OTP returns electronically, and that is also an added and ongoing cost. The 2.5% that wholesalers retain rightfully helps cover their costs and should not be eliminated.

New Vapor Tax

House Bill 49 also puts a new tax on e-cigarettes/vapor products, taxing them at 69% of the invoice price. There are others here to talk directly to the vapor tax so I will just point out that a 69% tax on this category will drive more sales online, meaning Ohio won't receive the expected tax revenue.

Broader Consequences to Consider

Cross Border and Online: Cross border and online sales do happen and that means lost tax revenue for the state.

The state budget passed in 2015 included just one tax increase and it was 35-cents/pack on cigarettes. Now, just two years later, another 65-cents/pack is proposed, plus the tobacco and vapor taxes.

	Cigarette Tax	AdValorem Tax Other Tobacco Products Tax*	E-CigsVapor
OHIO (current)	\$1.60	17%	n/a
OHIO (proposed)	\$2.25	69%	69%
Indiana	99.5cent	24%*	n/a
Kentucky	60 cents	15%*	n/a
West Virginia	\$1.20	12%	7.5cents/ml
Pennsylvania	\$2.60	No Tax on Cigars	40%
Michigan	\$2.00	32%	n/a

* Indiana and Kentucky tax moist segment taxed on weight;

* Pennsylvania ryo, chewing, snuff, pipe, etc taxed on weight, eff 2016.

Based on what we saw when Ohio’s tax increased by 70-cents/pack in 2005 (*Attachment 1*), we expect more consumers to take advantage of opportunities to avoid paying an additional \$6.50/carton when they just got an increase of \$3.50/carton two years ago. Other tobacco product and vapor consumer will also be more inclined to cross borders or go online.

Ohio is actually benefitting from a reverse cross border impact due to Pennsylvania increasing its cigarette tax by one dollar last year. Wholesale to retail shipment data from just three Ohio stores near Pennsylvania show that shipments increased for each store following Pennsylvania’s August 1, 2016 tax increase, and took total 2016 shipments above 2015 levels.

Reverse Cross Border into Ohio Following Pennsylvania Cigarette Tax Increase (eff. 8/1/16)
Examples of Wholesale to Retail product shipments

Store Location	2015 Cigarette Cartons	2016 Cigarette Cartons	Total 2016 Cartons Before PA Tax Increase (Jan-July)	Total 2016 Cartons After PA Tax Increase (Aug - Dec)	2016 Jan – Feb Cartons	2017 Jan – Feb Cartons
Conneaut, OH	8811	9389	4681	4708	1089	1367
Lowellville, OH	7674	9939	3760	6179	1009	2054
Masury, OH	7548	8445	3953	4492	1074	1799
Totals	24,033	27,773	12,394	15,379	3,172	5,220

Keep in mind that “cross border” is not limited to state borders. The internet has broken the border barrier and tax free cigarettes are available from a range overseas websites (*Attachment 2*). Even with shipping costs, major brands through these sites can cost 40 to 50 percent less than buying them in an Ohio store. Tax free cigars and all other segments of the other tobacco product category plus the entire e-cigarette vapor category are also available online and those tax-free resources become more attractive to consumers when taxes are increased.

OWMA supports and appreciates the Tax Department’s tobacco tax enforcement activity which focuses on wholesale and retail inspections to make sure that the taxes have been paid on cigarettes and other tobacco sold in Ohio. The agents also get engaged when local law enforcement finds undocumented quantities of tobacco on a pullover or in other situations that may indicate untaxed sales activity. These types of activities, and inspections for wholesale and retail compliance with the tobacco master settlement agreement, are what we see reported in the tobacco tax enforcement reports. Absent having Ohio tax agents stationed at stores in lower taxed states, enforcement does not stop consumer cross border sales. And despite state and federal laws that are intended to stop internet purchases and direct shipments to consumers, online sales of untaxed cigarettes and other tobacco are thriving.

Lost Sales = Lost Jobs When the tax increases are fully implemented, gross profits lost to Ohio retailers and wholesalers are expected to be \$134 million due to the decline of cigarette, other tobacco products, and sundry (tie-in) sales. It is estimated that more than 1,000 Ohio retailer and wholesaler jobs could be lost due to these tax increases. And these lost profit and jobs figures don’t even account for the impact of the proposed tax on e-cigarettes/vapor.

Tax Shifting OWMA appreciates the idea of reducing income taxes but it’s troubling that this goal is being supported through more tax shifting to less than a quarter of Ohio’s population and Ohio’s lower income demographic – smokers and consumers of other tobacco products. Cigarette and OTP taxes are regressive and impose a greater burden on the poor. Our 2015 data showed that almost 50 percent of Ohio smokers and more than 40 percent of other tobacco product users had a median annual household income of less than \$25,000, and that likely hasn’t changed much. They are already paying over \$1 billion in tobacco-related taxes and applicable sales taxes.

Mr. Chairman and members of the committee, I know I have covered a lot and I thank you for your patience and attention. There is much more that could be said but at this point I will thank you for your time, and I will do my best to answer any questions.

Attachment 1

**Examples of Pack Sale Changes Following
2005 Ohio Tax Increase**
Ohio Counties v. Corresponding Border State Counties³

County	State		Increase/Decrease in Pack Sales
Darke	Ohio	↓	-26.76%
Mercer	Ohio	↓	-19.04%
Adams	Indiana	↑	10.05%
Wayne	Indiana	↑	15.03%
Randolph	Indiana	↑	8.82%
Jay	Indiana	↑	9.41%
Hamilton	Ohio	↓	-17.97%
Clermont	Ohio	↓	-16.81%
Brown	Ohio	↓	-19.89%
Campbell	Kentucky	↑	118.74%
Kenton	Kentucky	↑	10.07%
Mason	Kentucky	↑	15.90%
Dearborn	Indiana	↑	29.20%
Lawrence	Ohio	↓	-35.16%
Gallia	Ohio	↓	-30.70%
Boyd	Kentucky	↑	24.64%
Greenup	Kentucky	↑	20.99%
Casell	West Virginia	↑	18.80%
Wayne	West Virginia	↑	14.59%
Mason	West Virginia	↑	56.05%

Source: wholesale to retail shipment data reported by wholesalers; wholesaler contracts with mfgs require this data be reported to a third party non-mfg data collection firm. Data above based on quarter prior to 2005 cigarette tax increase compared to same quarter following the tax increase.

When Ohio's cigarette tax increased by 70-cents/pack in 2005, border counties in Ohio saw a **decrease** in pack sales ranging from 17.9% along the Indiana border to just short of 37% along the West Virginia border. At the same time, sales in Indiana counties that border Ohio **increased** by 14% and in West Virginia by 24%. Ohio sales along the Kentucky border dropped by 18.5%, but sales just over the border in Kentucky increased by 26%.

Attachment 2

Examples of Online Resources for Tax Free Tobacco

Are you in search of top quality cigarettes at low prices? Kiwicigs.com offers a wide choice of premium cigarettes sold via Internet. We guarantee that all our products correspond to the high quality standards and are delivered in shortest terms to customer's door. We offer a wide selection of such popular brands as Marlboro, Camel, Newport, Winston, Salem and Parliament cigarettes. If you prefer any other brands you will certainly find them at Kiwicigs.com.

FAST AND DISCRETE DELIVERY!
PURCHASE REPORTING - NO!

100% GUARANTEE

All orders are processed and shipped from out of the US. Consequently all tax and customer information is strictly confidential and is not reported to any third parties.

CUSTOMER'S FEEDBACK

Thank you for your prompt attention and response to the matter. As usual, your customer service. Pete, U.S.A.

Great service! Cigarettes are always delivered on time, support service is very polite. Jennifer, U.S.A.

Good price, great service and product quality (always fresh). Products are carefully and securely packed for shipping. Gray, U.S.A.

www.kiwicigs.com

<http://www.dutyfreedepot.com/buy-duty-free-cigarettes.htm>

<http://dfreeshop.com/fag/>

Search Term Examples: "tax free cigarettes" – "tax free tobacco"
"tobacco online" – "cigarettes online" – "ecigs and vapor online"

Since June 2002 THE ONLINE TOBACCO STORE
CIGOUTLET.NET
Call Now: +1-213-9952968 Mon-Fri 9am - 12pm EST

Product Search:

Cheap Cigarettes Online

This store was created as the Cheapest Online Tobacco Shop with one single and important purpose: to offer discount and cheap cigarettes. Cheap cigarettes! Nevertheless, the cigarettes offered are not cheap in quality and flavor! We sell most Premium, Exclusive and Generic cigarettes online. As a smoker, you would like to get Good Service, Fast Online Cigarettes Delivery and the Best Prices. We - the cigarette online-shop team can guarantee and assure you of getting all the listed above services, while ordering cigarettes online. Making a purchase on CIGOUTLET.NET is so easy! We offer a great range of Marlboro cigarettes such as Marlboro Red, Marlboro Lights, Marlboro Ultra Lights and many, many other branded cigarettes. Our prices for prominent Marlboro cigarettes are incomparable to the other online-stores. That is why our prices for Marlboro are invincible!

Safe and Discreet Delivery - YES!
Purchase reporting - NO!

Customers Say: read more
something you can control... however the processing part of it is getting to be the pain to extremely... fact I recommend your service to as many friends (and sometimes even strangers) as possible! (and next time... cheers!)

All orders are processed and shipped from out of the US. Therefore We don't report tax or customer information to any government agency or other entity.

Prices per 200 cigarettes 1-carton: \$36.63 (Marlboro Red Box), \$27.90 (Camel Filters Box), \$33.09 (Winston Red Box)

Prices per 200 cigarettes 1-carton: \$38.70 (Parliament Full Flavor), \$219.70 (Cohiba Escausitos SBNL), \$9.50 (Smokeless Ashtray)

TOBACCO RELATED CRIME AGAINST OHIO BUSINESS

Examples of crime against tobacco wholesalers, as reported in by members of the Ohio Wholesale Marketers Association

March 29, 2017

Beth Wymer
Executive Director
Ohio Wholesale Marketers Association
88 E. Broad Street, Suite 1240
Columbus OH 43215

Beth,

I am writing this letter to bring to your attention the serious problem [REDACTED] is facing as a wholesale distributor of cigarettes. We have had a significant increase in our truck drivers being robbed of product during store deliveries. We were robbed on 5/23/16, 5/26/16, 12/30/16, 1/30/17 and 3/17/17. The latest one was done at gunpoint with our driver being forced to lay face down in the back of the truck while the thieves hauled away over \$9,000 in product.

If this latest proposed tax increase of an additional \$6.50 per carton passes I am fearful that we will have to start delivering in armored vehicles. I know of other distribution companies who are considering paying for concealed carry classes for their drivers. I can't imagine how that will turn out.

I and other wholesalers are at wits end trying to come up with a viable solution to this problem while still be able to run a profitable and safe business.

I would appreciate you communicating this issue to the appropriate representatives at the state and let me know their input.

Sincerely,

[REDACTED]

In the Cleveland market we had been strong armed robbed so many times.

- *Criminals just jumping up in the back of the truck while the driver was in the back of the truck and demanding a case or 2 of cigarettes, of course our company policy is to comply.*
- *Criminals carrying a set of bolt cutters, snapping the lock and taking what they want while the driver was in the store.*
- *We had a store owner with a gun chasing down a would be thieves that jumped up in the back our truck with the driver and tried to grab cases of cigarettes.*
- *We had a driver in the back of the truck, when a would be thief with a gun jumped in the back of truck demanding the keys to the truck, then locked the driver in the back of the truck and started down the road, the driver used his 2-wheeler to break out a panel of the back door and flag down a car. The driver of the car called the police and thank God the thief was caught before the situation got any worse. (That driver of 12 years never returned to work.)*

We now have a armed security company, in Cleveland, that leads our truck stop to stop and escorts the driver while delivering cigarettes and tobacco, then guards the truck during the rest of the delivery. The cost to have security is + \$40,000 a year.

In the Dayton market we had a gun pulled on a driver, we now have 2 drivers in the truck in that area. Additional Cost of \$22,500 a year.

It's not only the big city that cigarettes are like gold, the smaller towns we have just as much trouble.

Security for the warehouse has been up graded twice over the last 5 years at a cost of over \$50,000.

... I do have many other stories but think this gets the point across.

[REDACTED]

TOBACCO RELATED CRIME AGAINST OHIO BUSINESS

Below is the list of cigarette thefts in Ohio. In order to protect our drivers, we currently use security company to accompany three of our routes in the Cleveland area, to insure our driver's safety and protect company assets.

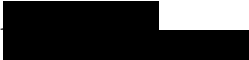
<i>Date</i>	<i>City</i>	<i>Carton Loss</i>
<i>11-10-2009</i>	<i>Cleveland</i>	<i>60</i>
<i>1-28-2010</i>	<i>Cleveland</i>	<i>30</i>
<i>1-27-16</i>	<i>Euclid</i>	<i>39</i>
<i>5-18-2016</i>	<i>Cleveland</i>	<i>58</i>
<i>6-8-2016</i>	<i>Euclid</i>	<i>30</i>
<i>2-22-2017</i>	<i>Cleveland</i>	<i>30</i>

This has been an ongoing issue in Ohio as well as Michigan, primarily the Detroit area. We spend approximately \$450 per route per week to protect our drivers and product with a security person.

With the average cost of a carton being around \$59.00 per carton, that adds up quickly and with only make \$2.00 or less per carton, it takes a lot of additional sales to make up the loss. And of course, there are the intangible costs of any physical or psychological distress related to the driver.

As prices for cigarettes goes up, so does the criminal activity.

Thanks



12/13/16

During delivery on 12/13/16 our driver delivered product in Lima, Ohio at 6.30 am . Upon exiting the storage area the truck had been stolen. The truck was located approximately 1000 feet from the store in a alley. Upon review of the remaining contents 180 cartons of cigarettes were not on the truck. \$9,244.88 Total value of our loss. Police investigated and as of 3/21/17 no recovery has been made.

10/05/16

Delivery Truck rear door broken into while parked in our lot. Upon review 71 cartons of cigarettes were stolen and 17 rolls of snuff. 4,395.44 Total value of loss.

We invested over 5,000.00 to upgrade our security cameras after this incident.

It is important to note that the above incidents were the first theft cases we have been involved in.

Police were involved in both but no recovery or arrests have been made.



ITS ONLY GOING TO GET WORSE—I FORGOT TO MENTION WE INVESTED IN SPECIAL AUTO LOCK DOOR GIZMOS THAT WILL END UP COSTING AROUND 4000.00 WHEN COMPLETED



TOBACCO RELATED CRIME AGAINST OHIO BUSINESS

Here are pictures of our problems in 2016 with theft. We had 3 attempts, one being successful which caused way more damage than theft. Total theft of product was just a bit over \$5,000 but the damages cost us over \$15,000. Plus increasing security with new doors, fences, cameras brought our costs well over \$25,000 for the year. Some might argue that insurance will cover it and that damages to wholesalers are minimal but as you know insuring cigarettes is not easy or inexpensive. The fear is one or two claims and we could be without insurance or insurance that is way too expensive.

We've had a number of our customers who have had a vehicle driven through their building for less than 30 cartons of cigarettes. The damages can be 10 times what we have to pay for the stolen product.



I am the Director of Asset Protection for [REDACTED] ... During my time with the company (16yrs) I witnessed the correlation between significant price increases and the subsequent increase in acts of theft toward merchants who offer for sale or distribution cigarettes and tobacco products in general.

Although I could site many, two most recent incidents stand out during my time with [REDACTED] A few years ago, at two separate locations, and just a month apart, two of our [REDACTED] stores were burglarized resulting in major loses to the company. In each occasion, the perpetrator(s) displayed professional behavior relating to how security systems were disabled and how entry was gained.

In the first incident, the thief or thieves disabled sophisticated security systems, followed by cutting a hole in the store's roof to gain entry. Once inside and having disabled our security systems, they moved freely and undetected resulting in the removal of thousands of dollars in tobacco products, primarily cartons of cigarettes.

The second incident was eerily similar, once again, after disabling our security systems, the thief or thieves meticulously removed several concrete blocks from an outside store wall to gain entry. As had happened in the first example, with our systems disabled, they were able to move freely and undetected resulting in the removal of thousands of dollars in tobacco products, primarily cartons of cigarettes.

I am pleased to report, both cases were solved and in both cases the same individual was responsible. The subject in both burglaries admitted the thefts were a result of the increased cost of the products and the items obtained were being sold on the street to individuals at a significantly lower price.

I site these two cases as examples of how the security measures of tobacco merchants has increased to protect their products, but unfortunately, so too have the efforts of those seeking to obtain such a high demand and increasingly expensive product through whatever means possible.

I have been in the retail Loss Prevention field for more than 30yrs. I can clearly and without reservation state to you that the efforts to obtain tobacco products through theft and other nefarious means has increased significantly based on the continued increases imposed on tobacco products, and I fear this trend has no end in sight.

Respectfully,

[REDACTED]