



DAILY NEWS CLIPS

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ALTRIA AND ANTI-SMOKERS AIM TO CLOSE ROLL-YOUR-OWN SHOPS

By Chris Burritt
Bloomberg BusinessWeek
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Todd Ridge stopped smoking Camel Lights last year after taxes pushed the price to \$4.60 a pack. Now he makes his own cigarettes at the Liberty Tobacco store in Archdale, North Carolina, cutting his habit's cost in half.

Over the past 4 1/2 years, mom and pops have installed more than 1,900 roll-your-own cigarette machines in 42 states, according to RYO Machines, which makes them. Taking advantage of a loophole in federal tax laws, some retailers are selling tobacco labeled as the pipe variety, which is taxed less, even though it often winds up in cigarettes.

Liggett Group says it's losing sales to the roll-your-own upstarts. The discount tobacco maker and Altria Group Inc. (MO) (MO) are fighting alongside health advocates -- after decades at odds -- to press Congress and the Food and Drug Administration to equalize tax payments on various forms of tobacco and to enforce the same health rules imposed on major producers.

"Tobacco is tobacco is tobacco," Liggett Chief Executive Officer Ron Bernstein said in an interview at the company's headquarters in Morrisville, North Carolina. "All we want is a level playing field."

The U.S. in 2009 boosted taxes on a carton of cigarettes to \$10.07 from \$3.90 and raised levies on an equivalent amount of roll-your-own cigarette tobacco to \$10.07 from 45 cents. Makers of pipe tobacco won a smaller increase -- to \$1.15 from 45 cents -- by convincing Congress that sharply higher taxes would "demolish" them, said Craig Williamson, president of the Washington-based Pipe Tobacco Council. The tax disparity led some small processors to start mislabeling their product as pipe tobacco, he said.

Strip Mall Shop

Tommy Bunn, president of U.S. Flue-Cured Tobacco Growers Inc., a major supplier of tobacco for the roll-your-own cigarette machines, didn't return a telephone call or e-mail yesterday. The Raleigh, North Carolina-based group is a cooperative of farmers.

Liberty Tobacco, tucked in a strip mall alongside L.A. Nails and Spirit of Triad Ministries, is one of the retailers that sprang up because of the tax difference. At lunch-time one day last week, two smokers waited in line while 71-year-old Dennis Smith watched his cigarettes plop into a plastic bin at the ATM-sized machine's base. The RYO Filling Station made by RYO Machines in Girard, Ohio, makes 200 cigarettes in about eight minutes, including the time needed to pour the loose tobacco and insert a cartridge of tubes with filters.

"They are better than any other brand," Smith said. "You don't cough as much. I guess it's because it is made from natural tobacco."

Health Claims

Such health claims are unproven and show why the FDA needs to regulate roll-your-own cigarettes, Bernstein said. Liggett, the fourth-biggest U.S. tobacco company, estimates that almost 2.7 million consumers smoked cigarettes made with mislabeled pipe tobacco last year, triple the number in 2009. About 45.3 million American adults were smokers in 2010, according to the U.S. Centers for Disease Control and Prevention.

An expansion of the roll-your-own industry may hurt sales at major U.S. tobacco companies, which are experiencing falling demand. That decline has accelerated since 2009, when President Barack Obama's push to discourage smoking led to the tax increases that forced tobacco companies to raise prices.

While demand for cigarettes has declined steadily, tobacco shares have brushed off surging volatility during the financial crisis and Europe's debt crisis because smokers are reluctant to scale back when cigarette prices rise or the economy struggles. As a result, the companies can return cash to investors. Altria hit a record high yesterday of \$30.61.

Tax Revenue

The U.S. has lost \$1.3 billion in tax revenue from mislabeled pipe tobacco since 2009, according to Liggett, owned by Miami-based Vector Group Ltd. (VGR) (VGR) Shipments by Altria's Philip Morris USA sank 4 percent last year compared with a 3.3 percent drop in 2008.

The U.S. government loses \$9.36 in tax revenue for every carton of roll-your-own cigarettes filled with pipe tobacco, according to Richmond, Virginia-based Altria, which makes one of every two cigarettes sold in America. The company's Marlboro is the top-selling U.S. cigarette brand.

The cheaper prices encourage consumers who otherwise would quit or cut back to keep smoking cigarettes that carry no health warnings, said the Campaign for Tobacco-Free Kids.

The U.S. Senate sided with Big Tobacco two weeks ago, passing a \$109 billion highway appropriations bill with an amendment that would classify tobacco shops with roll-your-own machines as tobacco manufacturers. That means cigarettes made in roll-your-own machines would be taxed at the same rate as Marlboros and Camels.

Pipe Tobacco

While the amendment would help solve the issue of roll- your-own machines in stores, “smokers would still be able to buy the cheap, lower-tax pipe tobacco and roll their own cigarettes at home,” said Vince Willmore, a spokesman for the Campaign for Tobacco-Free Kids in Washington. The group agrees with Liggett that loose tobacco and cigarettes should be taxed equally.

Declaring retailers to be manufacturers “would put us out of business,” said Josh Justice, 25, owner of the Liberty Tobacco in Archdale and a second location in nearby High Point. He estimated the machines in his stores have cranked out 7 million cigarettes since opening almost a year and a half ago.

“It’s another effort to put the small man out,” said Ridge, 46, as he returned to Liberty Tobacco last week for a week’s supply for him and his wife, Angie. Ridge pays about \$9.95 for the tobacco, \$2.52 for 200 tubes and \$9.19 to rent the machine.

“The cost is half and they taste good,” Ridge said.

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COMMERCIAL RYO MACHINE UPDATE

By Thomas A. Briant

Tobacco E-News – CSPNet.com

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Some 30 states have either adopted new laws classifying the operators of commercial roll-your-own (RYO) machines as manufacturers or imposing other regulations on the operation of these RYO machines, introduced legislation to regulate operators of RYO machines as manufacturers or filed regulatory notices to administratively regulate RYO machine operators.

The following is a state-by-state breakdown of the status of commercial RYO legislation and regulations:

Bills Enacted into Law: Arkansas, South Dakota, Virginia and Wyoming.

Bills Introduced and Pending: Arizona, Iowa, Kentucky, Louisiana, Massachusetts, Minnesota, Missouri, New York, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Tennessee, Vermont and Washington.

Both Bills Introduced and Regulatory Notices Filed: Idaho, Illinois, Michigan and West Virginia.

Regulatory Notices Filed: Alabama, Connecticut, Kansas, New Hampshire and Wisconsin.

Bills Not Passed: Indiana (referred to a legislative study committee) and Florida.

On March 7, 2012, the National Fire Protection Association (NFPA) issued a letter to all state fire marshals regarding the "proliferation of 'roll your own' cigarette machines" in a number of states. The letter goes onto state that "NFPA feels strongly that stores with roll-your-own machines fall under the

fire-safe cigarette laws, which were passed in all 50 states." James Shannon, the President of NFPA, says in this letter that the state fire safe cigarette laws define the term manufacturer as "any entity that manufactures or otherwise produces cigarettes or causes cigarettes to be manufactured" and that this language allows fire marshals to enforce the current fire safe laws with regards to operators of commercial RYO machines.

Also, a bill has been introduced in the U.S. House of Representatives as bill number H.R. 4134 that would include in the definition of a tobacco manufacturer "any person who for commercial purposes makes available for consumer use a machine capable of producing tobacco products." A number of state and national retail and wholesale associations have signed onto a letter to members of Congress urging them to support this legislation including six national trade associations (NATO is one of those associations), twenty-three major retail store chains, and 50 state retail trade associations.

Finally, an amendment was passed to a transportation bill in the U.S. Senate that would include operators of commercial RYO machines in the definition of "tobacco manufacturer" for federal cigarette tax purposes.

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NYACS HELPS BLOCK STATE TOBACCO TAX HIKES

NACS News Blog
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NYACS successfully advocated for changes to tobacco taxes proposed in the state budget.

The New York Association of Convenience Stores (NYACS) announced yesterday that it has succeeded in stopping New York State from further increasing tobacco taxes and thereby "chasing more customers" away from NYACS member retail outlets.

In the new state budget for 2012-13 that will be adopted later this week, Governor Cuomo and the Legislature agreed to remove the tax changes on cigars and loose tobacco the Governor had proposed two months ago.

NYACS fought these tax hikes, arguing that when tobacco taxes rise in New York, tobacco consumers head for the nearest Indian reservation, border state or bootlegger to avoid paying the higher tax — costing convenience stores business and costing the State tax revenue.

Cigar Tax. Governor Cuomo had proposed to tax cigars at 50% of retail value instead of 75% of wholesale value, with distributors pre-paying a portion of that tax (20 cents per cigar) and the retailer remitting the balance. With NYACS and tobacco-industry allies vigorously opposed, this was dropped from the final budget.

Loose Tobacco. In an effort to curb the commercial roll-your-own cigarette trade, Governor Cuomo proposed to tax all loose tobacco at \$4.53 an ounce instead of the current 75% of wholesale. That would

have tripled the price of take-home pipe tobacco sold by convenience stores, chasing those customers to tax-free outlets. NYACS showed Albany that the plan would backfire, and it was removed from the budget.

Minimum Markup. The state Senate had proposed increasing the handling fee paid by retail stores to their cigarette wholesale “stamping agent” from the current 2 cents per pack to 14 cents, giving wholesalers a 600% windfall without providing any markup increase whatsoever for retailers. Due to NYACS’ objections, this was rejected as a budget item, although it may resurface as a stand-alone bill in the weeks ahead.

Bottle Bill. The state Senate had also proposed changes to the state’s Bottle Bill, including provisions allowing distributors to pick up empties less frequently than they’re required to now and imposing unnecessary costs on retailers who use reverse vending machines. NYACS protested, and these changes were removed. However, possible Bottle Bill revisions continue to be debated, and could result in a stand-alone legislation.

Taxes/Fees. There are no other new taxes or fees impacting convenience stores in the final budget, fulfilling a key NYACS goal for 2012.

NYACS President Jim Calvin attributed NYACS’ budget-season success to the active involvement of its Board of Directors and Legislative Committee and outstanding work by its lobbyist Scott Wexler of Ostroff Hiffa & Associates and its legislative counsel Doug Kantor of Steptoe & Johnson. He thanked Gov. Andrew Cuomo, Senate Majority Leader Dean Skelos, Assembly Speaker Sheldon Silve, and their colleagues for listening to the concerns of convenience store operators about these issues.

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MICHIGAN CENTER HAS NEW ROLL-YOUR-OWN TOBACCO SUPPLY STORE

By Tarryl Jackson

Jackson Citizen-Patriot (MI)

March 28, 2012

A new roll-your-own tobacco supply store has opened in Michigan Center.

Munith residents Keith and Susan Goodrich have opened Tobacco “Plus” Store, which also offers tobacco, cigars, rolling machines and other supplies.

“The roll-your-own folks are growing bigger and stronger in numbers,” Keith Goodrich said. “We believe in fair prices and building a loyal customer base. We’ll meet or beat anybody’s prices out there.”

The store also offers handmade jewelry and cards, and buys and sells coins.

Hours are 10 a.m. to 7 p.m. Tuesday through Thursday, 10 a.m. to 8 p.m. Friday and Saturday and noon to 5 p.m. Sunday. Those hours are subject to change based on customer demand, Goodrich said.

For more information, call 734-461-6819.

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ROLL-YOUR-OWN CIGARETTE STORES EMERGE IN NORTHEAST OHIO AS SMOKING CULTURE EVOLVES

By John Caniglia

The Cleveland Plain Dealer (OH)

March 28, 2012

Virgil Waggaman drives 20 minutes in search of the perfect smoke, a cigarette that tastes smoother and costs less than half of what he would pay in a store.

He buys his tobacco and pours it into a machine that resembles a large, wooden cabinet and waits. In eight minutes, the roll-your-own machine produces 200 cigarettes, or enough to fill a carton.

He pays \$23.43 for them – the equivalent of \$2.34 a pack. In a store, he would pay about \$57, or \$5.70 a pack, a difference based primarily on manufacturing costs and taxes.

"They're way cheaper, and they're better," Waggaman said outside Medina Smokes, a two-year-old business that has three machines. "They're basically renting you their machines to roll your cigarettes."

As society pushes cigarette smoking to the margins, stores like Medina Smokes serve a growing number of people who have grown tired of tighter restrictions on smoking and higher taxes on cigarettes. Across the country, the businesses have created a small, but profitable niche in a market saturated by massive tobacco companies.

The development of the niche comes as the culture of smoking continues to evolve in the United States. The mountains of serious healthcare data related to smoking have driven anything about the practice somewhat underground. And with that pressure has come change: people who once lit up in the office 25 years ago must now, in some cases, walk off the property to smoke.

"We're a minority," Waggaman said of smokers.

And there is a push for greater restrictions.

Members of the U.S. House and Senate sponsored legislation this month that would force businesses such as Medina Smokes to be classified as tobacco manufacturers, a move that would hit the shops with higher taxes, according to interviews and published reports.

"This isn't about taxes; it's about market share," said Phil Accordino, a co-owner of RYO Machine, a business in suburban Youngstown that makes the machines. "It's not about anything but the majors trying to force the little guys out of business."

Accordino said the tobacco shops with roll-your-own machines in them are similar to grocery stores that offer customers the chance to grind their own coffee or gas stations that offer hot dogs with various toppings.

"Does that make a gas station a manufacturer of hot dogs?" Accordino said. "It's absurd."

But Nancy Stann and others like her aren't interested in a political fight.

On Tuesday afternoon, Stann, of Medina, went to Medina Smokes, chose her tobacco and filled the machine. The difference between the roll-your-own tobacco and the kind bought in stores can be felt in one's hands: the tobacco sold at the businesses is pipe tobacco; it appears fresher than the tobacco in cigarette packs.

In minutes, the machine churned out a container of cigarettes, each weighing about 1.3 grams, where as most brand cigarettes weigh about 0.9 of a gram.

"It was painless," Stann said. "In a matter of minutes, I just walk away."

Waggaman, of Chippewa Lake, drives to Interstate 71 and Ohio 18, where the Medina shop sits.

"It's worth it," he said, even with high gas prices.

By rolling their own cigarettes, customers don't have to pay taxes on the manufacturing of the cigarettes; but they do have to pay on the loose tobacco used to make the cigarettes.

Store employees said they have customers drive as far as Mansfield to buy tobacco and use the rolling machines. But the store and others like it have been busy. Customers have had to wait as long as a half hour or more to use a machine.

"This has gone on forever, people rolling their cigarettes," said Al Ross, an owner of Medina Smokes. "The only thing that has changed is that we made the process easier."

Original article and video here:

http://www.cleveland.com/metro/index.ssf/2012/03/roll_your_own_cigarette_stores.html