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March 4, 2010

Senator Lesil McGuire  
Alaska State Senate  
State Capitol Room 125  
Juneau, AK 99801

Re: SB 117 Price of Cigarettes

Dear Senator McGuire;

The purpose of this letter is to thank you for your leadership and sponsorship of SB 117 which relates to the price of cigarettes offered for sale in the State.

I am a former wholesaler with over 23 years of experience in the tobacco distribution business. In 2006 we sold our business, but I continue to have a personal interest in bills that impact tobacco. A large part of our success in operating our distribution business was attributable to paying attention to and being proactive with regard to Alaska tobacco taxation policy. In the past we worked with the legislature toward passage of the Unfair Cigarette Sales Act AS 43.50.800 which prohibits the sale of cigarettes below the state mandated minimum price.

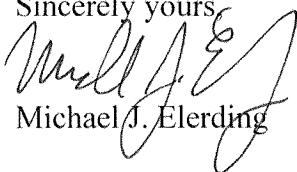
I am a lifetime non-smoker and an advocate for youth initiatives in Ketchikan and statewide. As a tobacco distributor I had an interesting perspective on tobacco pricing which may initially appear to run counter to conventional business wisdom with regard to tobacco pricing.

The intent of AS 43.50.800 was to prevent tobacco dealers from using cigarettes as a "loss leader" to increase store traffic by selling cigarettes at or below cost and making up lost revenues from the sale of big ticket items. Market research on tobacco pricing has clearly and consistently demonstrated that pack price has a direct correlation to youth smoking rates. I have enclosed a "fact" sheet from the Campaign for Tobacco-Free Kids which includes data that graphs Youth Smoking Prevalence vs Cigarette Pack Price from 1991-2007.

Price does impact youth access to tobacco products. A tobacco wholesaler or dealer who uses predatory pricing practices to artificially reduce the price of cigarettes by default increases youth access to these products. SB 117 closes a loophole in AS 43.50.800 which allows a tobacco wholesaler or dealer to sell cigarettes at or below cost. The bill is a straight forward remedy to the trouble created by selling cigarettes as a loss leader. Coincidentally, the bill benefits responsible tobacco dealers in the state because it allows them to make a modest profit on cigarettes without having to match predatory pricing schemes of large national chain stores.

If you have any questions or require further information from me I can be reached at 907-617-5412. Thank you for your sponsorship of this bill.

Sincerely yours,

  
Michael J. Elerding