

SENATE BILL REPORT

ESB 5897

As Passed Senate, March 17, 1999

Title: An act relating to the sale of export cigarettes.

Brief Description: Informing purchasers of cigarettes of adverse health consequences and whether the cigarettes were manufactured for consumption within the United States.

Sponsors: Senators Costa, Winsley, Thibaudeau and Oke; by request of Attorney General.

Brief History:

Committee Activity: Commerce, Trade, Housing & Financial Institutions: 3/2/99, 3/2/99 [DP].

Passed Senate, 3/17/99, 45-0.

SENATE COMMITTEE ON COMMERCE, TRADE, HOUSING & FINANCIAL INSTITUTIONS

Majority Report: Do pass.

Signed by Senators Prentice, Chair; Shin, Vice Chair; Benton, Gardner, Hale, Heavey, Rasmussen, T. Sheldon and Winsley.

Staff: Dave Cheal (786-7576)

Background: The smuggling of cigarettes, both internationally and between states, is stimulated in part by differences in tax rates. As state tax rates have risen uniformly across the United States, tobacco products manufactured abroad are being smuggled into the U.S.

The major U.S. cigarette manufacturers produce products for export that carry a significantly lower price tag than those for sale in this country. This disparity has made it profitable to re-import cigarettes manufactured for export, pay all the duties and taxes, and still sell them here cheaper than products made for domestic use.

Cigarettes manufactured in the U.S. for export have different nicotine levels and additives than those manufactured for the domestic market. However, consumers may think they are getting the same product for less. To the extent consumers shift to "gray market" cigarettes, the state may receive lesser payments under the comprehensive tobacco settlement, which is to some extent affected by sales volumes of domestic cigarettes.

Federal law which takes effect January 1, 2000, will ban the re-import of tobacco products manufactured for export. An effective state law would help deal with this problem until the federal law takes effect and to enforce the federal ban at the state level.

Summary of Bill: It is a violation of the act to possess, sell, or transport tobacco products which do not meet all the requirements of the federal cigarette labeling law. Labels on packages that identify them for export may not be altered or deleted.

Containers or packages of cigarettes that have stamps affixed illegally are subject to seizure and forfeiture, and may be sold to the highest bidding exporter who meets all state and federal qualifications for exporting cigarettes, or destroyed.

Violation of the act is a gross misdemeanor and is a deceptive act or practice under the Consumer Protection Act.

Appropriation: None.

Fiscal Note: Requested on March 1, 1999.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Testimony For: Smuggling cigarettes has become a significant problem, causing loss of tax revenue, possible losses under the comprehensive tobacco settlement, and deceiving consumers. Because of price disparity, cigarettes manufactured for export can be reimported and sold at a profit at prices lower than domestic cigarettes. The bill will give the state the needed tools to deal with this problem.

Testimony Against: None.

Testified: PRO: Christine Gregoire, Attorney General; Todd Mielke, Brown and Williamson/Lorillard; T.K. Bentler, RJR Tobacco.

House Amendment(s): The option of selling seized cigarettes to qualified exporters is deleted. Seized cigarettes must be destroyed.