



TEXAS ASSOCIATION OF WHOLESALE DISTRIBUTORS, INC.

April 30, 1998

Hon. Joe Barton
U.S. House of Representatives
2264 Rayburn House Office Building
Washington, D.C. 20515

Dear Hon. Joe Barton:

I appreciate the courtesy that your Texas office staff have given some of our wholesaler members and others who have contacted them about S. 1415, the Tobacco Products Control Act. While this legislation has received wide-spread news media coverage, very little has been said about the effects of this proposal on your district, and throughout the rest of Texas.

There has been a rush to punish cigarette manufacturers, and a frenzy to fund an increasing number of programs with the punitive tax increases and assessments. Much of this proposal is based on the premise that tobacco products should be priced so high that few will buy them, especially minors.

The problem is that the McCain bill (S.1415) will ultimately increase the legal price of cigarettes to nearly \$50 per carton, which will make cigarettes a form of contraband gold. Overnight, it will create an incredibly profitable black market in cigarettes. Export cigarettes are being diverted back into states now, but if S. 1415 is enacted as proposed our border and coastal states especially will be flooded with such contraband.

Our members are wholesale distributors of thousands of products – including cigarettes and other tobacco products – to convenience, chain, and grocery stores in Texas and the surrounding states. We are familiar with the effects of excessive taxation on these products. We have experienced warehouse break-ins and thefts, cargo hijackings, and bootlegging activity. These will all increase if the price of cigarettes greatly escalate, and security and insurance costs will skyrocket.

The most likely result is that there will be fewer tax-paid cigarettes sold, and a much greater number bought illegally. Texas wholesalers are opposed to minors buying and using cigarettes and other tobacco products, but S. 1415 as written will not stop that. It will make cigarettes more available to teenagers, because they will have easy access to a widespread cigarette black market caused by an exorbitant tax rate.

7320 N. MoPac Expressway, Suite 209 • Austin, Texas 78731-2309 • 512/346-6912 • FAX 512/346-6915

2077065052

The tax increase proposed for over a two or three year period would be almost impossible for wholesalers and retailers to absorb. With each substantial tax increase on new inventory, as well as on in-stock inventory, wholesalers and retailers will have to find considerable new money to put into the cost of inventory. This will be a permanent increase; and one which few financial lenders would be willing to fund for businesses with an already thin profit margin.

This staggering additional amount of inventory funding would put many Texas companies out of business, and their employees out of jobs. With the obvious increase that will occur in illicit sales of cigarettes, most wholesalers and retailers will be forced out of handling these products. All of us want to stop minors from having access to, and using, tobacco products. However, please work for a reasonable settlement that does not harm or destroy legitimate businesses in your district and state, as well as throughout the nation.

I and the members of our association appreciate your interest and concern on behalf of Texas wholesalers and retailers.

Best regards,


Joe Ratcliff
President

2077065053