

Testimony by John Nasser to the PA Senate Finance Committee

Wednesday, February 11, 2009

Good Morning, and thank you, Chairman Browne and members of the Senate Finance Committee, for giving me the opportunity to speak to you today. I am sorry that two of our most knowledgeable and articulate colleagues are unable to be with us today. I believe you do have Randy and Jerry's written testimonies.

My name is John Nasser, and I am a co-owner and vice president of Obade Candy Co., Inc located in Kittanning, PA.

Obade Candy Co was founded in 1936 and we are now a third generation family business. We employ 9 people including 3 family members. Most have premium health insurance covered 100% by the company. We sell a variety of products including confection, candy, snacks, paper supplies and industrial janitorial supplies and restaurant supplies along with tobacco and cigarettes. **Cigarettes and tobacco account for more than 78% of our gross profits.** We are one of the smallest distributors in the state, yet we were responsible for over \$2 Million in state and federal cigarette excise taxes alone, not counting other personal and business taxes last year.

We give a lot back to our community in personal time, money and product. I am a member of the local Elks and I sit on the local vo-tech school's advisory board. I have worked with the local 4H. My brother is a member of numerous community organizations including sportsman clubs, youth football, and little league. He enthusiastically donates his time coaching these children and working in concession stands. My wife works at the local Catholic school as an aid and volunteers her time to more church, school and community activities than I can even keep track of. We have 4

children with two of them currently enrolled in college. We pay 100% of the tuition. Our profits go back to our community and the state. We are not gangsters.

Our industry, once again is under assault. Very recently we have been faced with a state wide no-smoking ban. We are still in the midst of handling the LIP switch (fire-safe, which according to smokers are not satisfying). Both of these have resulted in diminished sales. Two weeks have gone by since I had originally prepared this testimony and since that time, for those of us in the tobacco business, history has changed immensely. SCHIP tobacco tax increases which are another unfair attack on tobacco and smokers and a threat to not only our industry but the overall economy has been passed and signed into law. The SCHIP tax alone, without any increases in state taxes will decimate our business once again. We are eliminating inventory on certain items, anticipating them to be extinct after April 1st. Congratulations for your first really big success. The products I am talking about are the item the absolute poorest and most disadvantaged and disabled people buy. Roll your own which will increase from about \$10 per bag to over \$35.00 per bag.

Several years ago, we lost 29% of our cigarette sales after the last two tax increases that increased the state tax from \$3.10 to \$13.50 per carton and two Federal increases combined at \$1.50 per carton leaving a federal tax of \$3.90. People did not quit smoking; they simply found cheaper sources, such as Indian sellers. SCHIP has not been signed for a single week, and already, I have a mailing from the Indian sellers advertising cigarettes and yes also roll-your-own and chew at discount prices. It has begun again. Please see the embedded postcard from the Seneca Indians at the bottom of my testimony. I am not sure if they are subject to the federal taxes, if not this will be grave for our industry.

In addition to the scenarios described by my colleague's testimonies, I would like to present another unintended consequence, the ripple effect of this tax on other consumer staples. Though the specifics differ from what happened with the recent spike in fuel costs, the end result will be the same, other consumer goods will increase in price.

Now that Obade Candy Co is gone or reduced to rubble, what is the bigger picture? I believe it will greatly further the erosion of our already, severely beaten economy. Cigarettes and tobacco account for roughly 6% to 60% or more of the gross profits in convenient stores and other businesses that also sell other consumer goods. Without these profits, IF these businesses did survive, the prices of other consumer goods will have to be greatly increased. Now the NON smoker, who goes to buy his sandwich, coffee, or candy bar or other snack at a convenient store, will end up paying out an extra \$10 a week. All other consumer goods MUST increase to compensate for these lost profits. At the end of the month, EVERY consumer will end up digging into their pocket for yet ANOTHER \$100 to pay for their necessities. Is this not what caused the economic meltdown to begin with? Fuel began to spike, shipping costs and production costs went up at every stage of distribution, compounding along the way. At the same time as this fuel spike, minimum wage was increasing, which mostly effected jobs in the consumer goods retail industry forcing further price increases, food for fuel was being pushed driving wheat products through the roof. A bag of flower went from \$7.00 to settle at \$21 after a \$30 peak. Plastics and other packing products nearly doubled in price. The end result was consumer staple prices spiked. Between the actual cost of energy and gasoline and staples, the average consumer had to cough up another \$300 to \$600 a month, leaving little discretionary income to drive the economy. This ignited the failure of the sub-primes, as they no longer had the money to pay the increased mortgage payments. The poorest of people, had to actually choose between paying bills, eating or driving. They never had any discretionary income to begin with. Behold our economic mess.

Is this what we really need, MORE of the same scenario I've described, to further decimate our economy, this time caused by even MORE draconian tax increases, on a product that generates profits that actually help to keep other consumer goods prices low? We have already seen this over the past 10 years, as tobacco profits declined, as a candy bars markup increased from 69% to over 100% from manufacturer to consumer in convenient stores. Will this tax increase finally kill the goose that lays the golden egg? When the tobacco tax revenue is diminished and the scenario I've described comes to fulfillment, will we again start this cycle of economic failure, by necessitating huge taxation of other goods? I believe this action would be illogical, and irresponsible. We need to look at more fair and creative solutions, ones that will actually help this damaged economy recover. A recovered economy is what will increase the states revenues, not more of the same failed policies. We hear so much rhetoric about everyone needing to sacrifice and "universal pain". Shouldn't our leaders first have the courage to put aside politics before asking the citizens to sacrifice? Sure it is politically expedient to say you are only taxing "one group", smokers. As you can see this single tax will ripple through the entire supply chain and compound exponentially along the way, as it has in the past, ultimately taxing everyone. The same end could have been achieved with a much smaller tax spread across more consumers. Just a penny per ounce, or 2 ¢ on a candy bar could have raised 9.5 billion dollars for SCHIP. Snacks, soda, video games and the things that actually contribute to children's health problems could have been taxed. How much can the state raise if they raised the sales tax by ¼ or ½ or even 1% instead of assaulting one group of citizens with extraordinary taxation. These "broad based" tax increases as the governor would call them would have zero effect on the economy.

As myself and my colleagues sat and tried to figure out how we are going to handle what is ahead of us, what changes will we have to endure, can we even endure, I became

angry. I became angry at our leaders, those in Washington, those in the state. It is mind boggling that none of the things we are discussing are even considered. Do they really not care? Do they not understand? Or do political ends justify absolutely any means, no matter what the end result to our way of life is. Is there no broad view of unforeseen consequences when these ideas are put forth? I am standing here with a copy of House Bill 57. Surely you can tell me this is a jest? A 59.2% tax on top of what SCHIP has already done? A stamp must be affixed to every item which unlike cigarettes, come in infinite shapes and sizes and configurations? Is there no thought to the insanity of the logistics of this? A state OTP tax would require a new job to handle the reporting and another to handle the stamping. Oh that is wonderful, TWO NEW JOBS! Who is going to pay for these jobs? HOW are we going to pay for these jobs? What my self and my colleagues are telling you today, is not blowing smoke. Jobs will be lost, businesses will close, prices on other goods will go up, smokers will be left with less discretionary income to help fuel a recovery. **NO** citizen should have to endure this kind of excessive taxation.

I am sure we are about to hear testimony from others telling us how bad tobacco is. No doubt, it is not healthy. I recently quit smoking myself after 35 years. But I believe man is free, and free to choose. Smoking is one of our human flaws. It is not going away. It can be done legally, or illegally. I'm sure they are going to tell us some statistics about the enormous cost to society. What they won't tell us is that a death from a "smoking related illness" includes 90 year old Joe that never smoked in his life but died from a heart attack while shoveling snow. If numbers don't add up, someone either made a mistake, is lying, or they are statistics. Hopefully they will continue to do their job and educate people about the health risks and less people over time will use tobacco by **FREE CHOICE**. The economy can handle a gradual decline. What it can't handle is an out and out assault on our wallets and our freedoms to reach their ends. You may as well outlaw them. The consequences will be the same. But we know this is not about

health. This is about political gain. Smokers do not generally vote! If it was a simply health concern, we would be taxing steaks, hamburgers, donuts and automobiles at 300%. Are we to become a Stepford Society of walking zombies?

How can we have so much talk about stimulating the economy and how we must save jobs and at the same time, be considering such a fiscally irresponsible tax increase on a single industry that will be certain to destroy jobs and cause inflation? Again, it is absolutely mind boggling. I urge you to please put aside political expediency and actually work for the people of this state. ALL OF THE PEOPLE! Moving forward with another assault on tobacco at this time of economic peril without consideration to what you are hearing from our industry, the distribution industry, will defy rational thought for the sake of political gain. In my opinion, that would be a disgrace and should be a crime itself.

Thank you for your time and consideration.

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