



Banning the Sale of Flavored Tobacco Products: Economic Impact Report

Office of Economic Analysis

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Introduction

- The proposed legislation amends the San Francisco Health Code to prohibit local tobacco retailers from selling flavored tobacco products, including menthol cigarettes, flavored chewing tobacco, and flavored liquids containing nicotine designed to be used with electronic cigarettes.
- The law does not criminalize the possession or use of flavored tobacco, only its sale by retailers within the city.
- Unflavored tobacco product sales would not be affected. Tobacco products are considered to be flavored, if they are advertised as having a distinctive flavor.
- If passed, the law would go into effect on January 2018.
- Retailers in San Francisco are required to possess a permit to sell tobacco. The only penalty for violation of the ban is a potential of the suspension of tobacco sales permit, at the discretion of Director of Public Health.
- The Office of Economic Analysis has determined that if enacted, the proposed ban could have a material economic impact on the city's economy.

History of Flavored Tobacco Bans at the Federal, State & Local Levels

- Flavored tobacco bans, including both traditional and electronic cigarettes, have become increasingly common across the United States in recent years.
- On September 22, 2009, the FDA banned “characterizing flavors” in cigarettes such as an herb or spice, including strawberry, grape, orange, clove, cinnamon, pineapple, vanilla, coconut, licorice, cocoa, chocolate, cherry, or coffee.
- The ban was authorized by the FDA under the Family Smoking Prevention and Tobacco Control Act, which is a part of a national effort by the FDA to reduce smoking in America.
- However, the FDA stopped short of prohibiting menthol in cigarettes or flavoring in other tobacco products such as e-cigarettes, cigars, smokeless tobacco, etc. The FDA law, however, does not prohibit states and localities from banning flavored tobacco products.
- On October 28, 2009, New York City banned the sale of most flavored tobacco products, exempting only certain flavors.
- On July 1, 2009 Maine banned the sale of flavored cigarettes & cigars in the state.
- On October 1, 2008, New Jersey banned the sale of flavored cigarettes but exempted menthol and clove cigarettes.

Use of Electronic Smoking Devices and Flavored Tobacco Products

- According to a 2016 study* the use of electronic smoking devices (e-cigarettes, e-hookah, hookah pens, vape pens) has dramatically increased over the last few years. Nationally, only 3.7% of adults currently use e-cigarettes but in California the rate is 5.8%. The breakdown of the CA rate by age shows that the prevalence rate is 9.4% for young adults (aged 18-24) whereas the rate is 7.4% for smokers aged 25-44 and 2.6% for smokers aged 45-65. Currently, no data is available at the county level but similar trends are likely observed at the city level.
- The report also cited that nationally, e-cigarettes prevalence rate among high schoolers is 13.4% and is considered the most common tobacco product use; whereas the rate for Californian youth (aged 12-17) was reported to be 13.7%. The study also showed that the average (male & female) prevalence rate among 7th, 9th and 11th grader was 8.0%, 13.3% and 15.4%, respectively.

* *California Tobacco Facts and Figures: Over 25 Years of Tobacco Control in California*, California Department of Public Health, California Tobacco Control Program, October 2016.
<https://archive.cdph.ca.gov/programs/tobacco/Documents/CDPH%20CTCP%20Refresh/Research%20and%20Evaluation/Facts%20and%20Figures/2016FactsFigures-Web.pdf>

Use of Menthol Cigarettes and Other Flavored Tobacco Products

- Menthol and other flavoring additives can mask the harshness and taste of tobacco, and thus may particularly appeal to youths and potential new smokers.
- According to a 2016 study*, nationally, 70% to 80% of all current middle and high school tobacco users have used at least one flavored tobacco product in the past 30 days. Nationally, about 25% to 30% of cigarette smokers use menthol cigarettes. The study also cited that 34.9% of adult California smokers usually smoke menthol cigarettes.
- The overall adult cigarette smoking rate for California was reported to be 11.6%; whereas San Francisco rate was 10.1% which is about 15% lower than the state. No county level rates are currently available for either menthol or e-cigarettes but it is likely that city exhibits similarly 15% lower rate for menthol and e-cigarettes as well.
- The study also pointed out the menthol cigarettes are disproportionately smoked by adolescents, African Americans, and individuals who identify themselves as LGBT. Over 55% of African American adults in California usually smoke menthol cigarettes.

* *California Tobacco Facts and Figures: Over 25 Years of Tobacco Control in California*, California Department of Public Health, California Tobacco Control Program, October 2016.

<https://archive.cdpH.ca.gov/programs/tobacco/Documents/CDPH%20CTCP%20Refresh/Research%20and%20Evaluation/Facts%20and%20Figures/2016FactsFigures-Web.pdf>

Population and Number of Potential Teen and Adult Smokers in the City

- Based on information from the California Health Information Survey, and the CDC’s Behavioral Risk Factors Surveillance System, and population information from the Census, we estimate the following prevalence of cigarette and electronic cigarette use.
- Adults are more than twice as likely to smoke as to use electronic cigarettes, while teens are nearly twice as likely to use electronic cigarettes as to smoke.

	Teen (Ages 12-17)	Adult (Ages 18+)
Population	34,309	754,145
Cigarette Smokers (flavored and unflavored)	1,548	78,459
Percentage of population	4.5%	10.4%
Electronic Cigarette Smokers	2,892	37,244
Percentage of population	8.4%	4.9%

Estimated Sales of Flavored Cigarettes In San Francisco

- Based on the prevalence information on the previous page, the OEA has estimated the value of flavored tobacco cigarettes that would be affected by the legislation at approximately \$50 million per year, as detailed in the table below.
- Much less research has been done on the consumption of electronic cigarettes, and we do not have an estimate of those sales in the city.

	Teen (Ages 12-17)	Adult (Ages 18+)
Population	34,309	754,145
Cigarette Smokers (flavored and unflavored)	1,548	78,459
Average packs consumed per smoker, annually	212	212
Average price of a pack of cigarettes	\$8.50	\$8.50
Percentage of packs affected by the ban (Menthol)	35%	35%
Total spending on affected cigarettes (\$ M)	\$1.0	\$49.5

Number and Composition of Affected Retailers in the City

- While we have estimates of the purchases made by San Francisco residents, we do not know how many of those purchases are made at San Francisco retailers who would be subject to the ban, as opposed to out-of-town or online retailers.
- Permitted tobacco retailers that sell cigarettes are required to pay the Cigarette Litter Abatement Fee to the City, to offset the City's cost of cleaning disposed cigarette butts.
- In the third quarter of 2016, the last quarter available, 726 local retailers paid the fee. Other permitted retailers, who sell flavored tobacco but do not sell cigarettes, do not pay the fee.
- Most of these retailers are small convenience stores or gasoline stations that sell fewer than 20 packs of cigarettes per day. We have no information on how many sell flavored cigarettes that would be subject to the ban, though in general, the California Department of Public Health reports that 35% of cigarettes sold are menthol-flavored, and thus would be covered by the ban.
- Because the City does not levy a fee on the sales of electronic cigarettes or nicotine-based liquids, we do not have any information on the sales of those products by San Francisco retailers.

Economic Impact Factors and Assessment

- The proposed ban on flavored tobacco products can be expected to have three primary effects on the local economy:
 1. Reduction in tobacco product use: By reducing access to flavored tobacco products that are particularly appealing to young people, it may reduce the future use of cigarettes and other affected tobacco products. The reduction of cigarette smoking, in particular, would lead to long-term health benefits. In this event, tobacco retailers would be harmed by reduced sales, but consumers, other retailers, and the public sector would benefit from replaced retail sales, improved health, and lower health care costs in the future.
 2. Switching from affected to unaffected tobacco products: Because some nicotine products are affected by the proposed ban, while others are not, existing users of flavored tobacco may replace the consumption of flavored tobacco products with unflavored. This switching behavior would likely occur most with cigarettes, since essentially all electronic cigarettes are affected. In this event, there will be essentially no impact on either consumers or retailers, since sales of one type of tobacco product would be replaced by another.
 3. Switching from affected retailers to online or out-of-town retailers: Electronic cigarettes, are widely available online, and our research suggests prices are roughly comparable to local retailers. If consumers choose to buy online, there would be a net loss to local retailers and the city's economy, without any countervailing benefit.
- Owing to an absence of detailed data on tobacco consumption in the city, we are unable to estimate the relative importance of these three responses to the legislation.

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