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A family owned company

FDA MENTHOL BAN TALKING POINTS
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THANK YOU FOR THE OPPORTUNITY & INTRODUCTION:

- PRSG / WHO WE ARE:

PRSG is the leading consumer goods distributor in the territory of Puerto Rico with over 1,100 employees in sales, distribution, manufacturing, and farming. We are an island with a 3.3 million population.

Notwithstanding our diversification efforts throughout the years, **40% of PRSG distribution business still depends on cigarette sales, of which 81% pertains to the menthol category.**

- THE BAN / A DEVASTATING IMPACT

FDA's planned national ban on menthol-flavored cigarettes will have a devastating economic impact over our operations and jobs & Puerto Rico's government tax revenues.

The ban would literally wipe out half of our distribution business and jobs, while fueling illegal trade and, consequently, defeating the very purpose of FDA's planned rule.

- BLACK MARKET WILL SOAR WITH MENTHOL BAN

Black Market will soar to unseen heights. Black Market is already a problem in Puerto Rico due to high cigarette excise taxes in the island —**the second highest excise tax in the Nation with \$5.10 per pack (after NY \$5.35).**

Legal market has been undermined by this black market & Government's collection rate has dropped considerably. Three years ago, Government collection rate was 53.4%. In other words, **half of the cigarettes consumed did not pay taxes** being carelessly sold in black market to anyone, including kids.

Latest government projections for tobacco excise tax collections (FY 2021-22) estimate that **revenues will fall 32%. This is a clear signal that black market**, previously contained by the Pandemic, is on the rise again. Actually, our sales increased over 10% during the Pandemic.

- FDA's PROMISE TO HALT BLACK MARKET UNLIKELY TO SUCCEED

Fighting the black market would require important budget increases in Federal allocations to ICE, the US Coast Guard and other federal law enforcement agencies. Our experience collaborating with ICE locally has proven it's a difficult task:

- o USVI, Dominican Republic, the British Virgin Islands, Saint Martin and St. Kitts. Trafficking is made also from nearby foreign countries, such as, and by air through Copa Airlines introducing cigarettes from Panamá and with Avianca from Colombia, and other South American countries. Also, from the US through flights.

(Cont. FDAs promise to halt black market will not succeed)

- NGX y CGX tax free stores are a big part of the problem, through resale of tax-free cigarettes. After hurricane María, in 2018, tax free stores were limited to active personnel drying out the black market, legal sales increased. Coast Guard imports cigarettes from Germany, Ashford, that don't comply with Federal Regulations.
- Plus, FDAs ban fosters black market behavior since it will only address manufacturing and sales, but not individual consumer possession or use: smuggling will increase.
- Indian reservation cigarettes in the US and Canada, are not taxed by the federal government, resulting in very low prices and unfair competition. Illegal reselling of these cheap cigarettes are destroying the legal and well-regulated cigarette market.
- That's what happened in the European Union: menthol smokers buy their menthol cigarettes from other sources or convert to regular tobacco cigarettes.

MENTHOL CIGARETTE BANS IN EUROPE AND CANADA SHOW LIMITED QUIT RATES

- 40% of respondents indicated that they reduced their menthol cigarette consumption, but either continued or increased their consumption of non-menthol varieties.
- 13% of respondents started buying menthol cigarettes from other sources; and
- 13% began buying products to manually add a menthol flavor to regular tobacco products.
- Case of California, 17 new sku's now in the market.

COSTS WILL BE GREATER THAN BENEFITS

- A ban on menthol-flavored cigarettes will signify a strong cost to Puerto Rico tax revenues. The Government of Puerto Rico Puerto Rico officially began to exit bankruptcy on March 15, 2022. It still cannot afford to lose any tax revenues to be able to comply with payments.
- In fact, Puerto Rico is still under the Financial Oversight Management Board (FOMB) appointed by the US Congress. Projected to stay until 2028, to ensure complete government's financial recovery and the return to capital markets.
- PRSG is one of the government's top contributors in taxes contributing over \$160 million yearly, equivalent to 1.2% of current total revenues. A menthol ban will hurt our operations and consequently government revenue.
- Gas stations over 55% of our sales in tobacco products also, will suffer a big blow and this will cost Government too. Cigarette sales are the second most important category in gas station sales. Substantial reduction in cigarette sales would put 1,400 gas stations jobs at risk; adding to owners struggles due oil prices.

- As mentioned, Puerto Rico tobacco excise taxes are the second highest in the nation and alone make up 48 percent or more of the retail price, making the menthol ban a high cost for state revenue losses.
- As for the United States, the Tax Foundation estimated that the FDA national ban on menthol will result in a \$6.5 billion loss in government revenues the first full year following prohibition.

IN SUMMARY:

The FDA ban on menthol-flavored cigarettes IS AN ECONOMICALLY SIGNIFICANT REGULATION.

It will adversely affect in a material way the economy in Puerto Rico, OUR BUSINESS AND OUR JOBS, and many others in the tobacco retail sector.

It adds to government revenue losses for both State and Federal. Particularly in Puerto Rico, losses will affect the route to our government's economic recovery from bankruptcy.

In all, the costs will be higher than the benefits. Our livelihoods, as government tax revenues, should be protected.