

THE IMPACT OF ALTERNATIVE PRODUCTS ON MSA

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SICPA/MEYERCORD – WHO ARE WE?

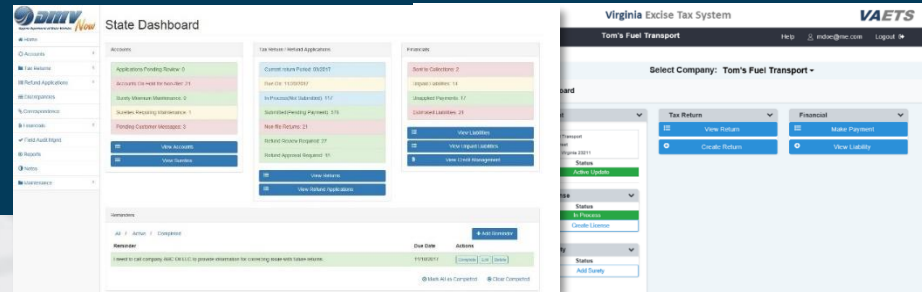
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IMPACT OF ALTERNATIVE PRODUCTS ON MSA

- 1. Inception of MSA**
- 2. Involvement of FDA**
- 3. Market Shift**
- 4. Future Actions**



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I. INCEPTION OF MSA

MASTER SETTLEMENT AGREEMENT (MSA)

- Manufacturer Requirements
 - Restriction of their advertising and sponsorship especially towards youth
 - Require brands to be registered
 - Require settling manufacturers to make annual payments
 - Adjusted for inflation
 - Based on cigarettes sales
- State Requirements
 - Require accountability of cigarettes and roll-your-own sold into state



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II. INVOLVEMENT OF FDA

FDA INVOLVEMENT

- Deeming Regulations
 - Defined manufacturing
 - Distribution and marketing restrictions
 - Premarket review requirements
 - Restrictions on flavors
 - Require warning labels
 - Ban the use of “light,” “low,” and “mild” terms on products





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III. MARKET SHIFT

RYO vs. PIPE TOBACCO

- Increased taxes and MSA implications resulted in an increase in price
- Market reacted to the price increase by labeling packages as 'Pipe'
- Suggestion for TTB to provide a clear definition in order to provide differentiation between pipe and RYO
 - Moisture content
 - Size of the tobacco cut

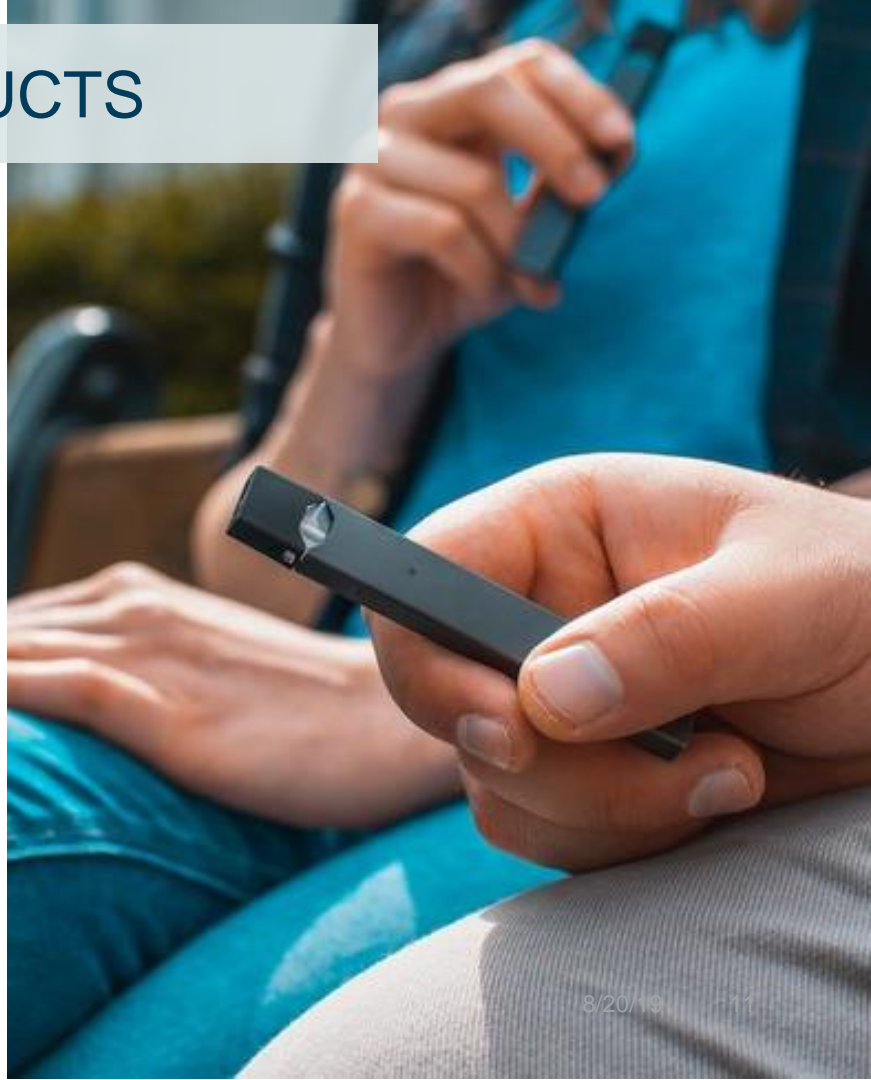
CIGARETTE vs. LITTLE CIGAR

- Sept 2009 flavored cigarettes were banned by the FDA
- Market reacted by selling flavored products as little cigars
- Taxation has changed to include stamping little cigars as cigarettes
- Further legislation has been proposed to restrict sale of all flavored tobacco products



EMERGENCE OF VAPE PRODUCTS

- Youth has shifted to e-cigarettes as a result
- E-cigarettes introduced after Aug. 8, 2016, were supposed to be the first to undergo FDA review in order to be marketed
- FDA declared limitations of flavors and retail sales



OTHER PRODUCTS

- What are some new products?
 - Heated tobacco products
 - Dissolvable
 - Herbal or clove cigarettes
 - Hemp cigarettes
- How will new products be classified as well as taxed?



OVERALL IMPACT ON MSA

- Change in market share
- Market is diversified over many products
- Reduced sales of cigarette reduced MSA payments



IV. FUTURE ACTIONS

FUTURE ACTIONS

- Continue shift in the market place
 - New products
- Actions taken by local legislation
 - Change to the taxing structure
 - Change public policies
- Additional regulations from federal agencies
 - FDA definitions and regulations
 - TTB enforcement

HOW CAN A STATE TAKE ACTION?

- Collect data regarding all products bought and sold into the state
 - Adopt FTA Uniformity schedule and product codes
 - Mandate reporting requirements
- Verify and audit the reported information
 - Implement discrepancy and cross match procedures to verify the data
 - Work with other states and jurisdictions

HOW CAN A STATE TAKE ACTION?

- When sourcing a vendor for reporting solutions include expectations and requirements in RFP
- Kentucky - RFP includes:
 - *'the software shall require that all imported return files meet current FTA XML specifications'*
 - *'the software shall insure any data received from another state meets FTA uniformity guidelines prior to upload'*

THANK YOU FOR YOUR ATTENTION

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