July 13, 2018

Testimony of Carrie Wade, Director of Harm Reduction Policy, R Street Institute

Office of the United States Trade Representative
"Section 301: China's Acts, Policies and Practices Related to Technology Transfer, Intellectual Property and Innovation"

Mr. Chairman and Members of the Committee,

My name is Carrie Wade and I am the director of Harm Reduction Policy at the R Street Institute. The R Street Institute is a nonprofit, nonpartisan, public policy research organization based out of Washington, D.C. We strive to promote free markets and effective government policies in many areas, including harm reduction.

From a public health perspective, it is important to incentivize people to use less harmful products and to keep the total cost of e-cigarettes at a price that will encourage people not to choose combustible cigarettes. Contrary to such aims, however, I fear the proposed tariffs will increase the cost of these less harmful products and thus will keep them out of the hands of people who would benefit from them.

The proposed tariffs are intended to shift manufacturing of goods to the United States. Unfortunately, with regard to e-cigarette devices and their component parts, this shift will not happen without regulatory certainty from e-cigarette manufacturers.

For at least the next four years, e-cigarette regulation faces uncertain terms. The most significant contributor to this uncertainty is the burdensome Pre-market Tobacco Application process, that when finally enacted will likely put many small manufacturers out of business. In addition, the FDA rules regarding acceptable nicotine levels of combustible cigarettes and flavor restrictions of all tobacco products, including e-cigarettes, are still being debated. These questions will remain unanswered for several years and will prevent e-cigarette manufacturing from coming to the United States. Therefore, the proposed tariffs will only serve to permanently raise the prices of e-cigarettes.

It is imperative that we take steps to make sure this doesn't happen. Currently, the price elasticity of e-cigarettes is between -1.2 for disposable and -1.9 for non-disposable systems, while the price elasticity of combustible cigarettes centers around -0.4. This suggests that combustible cigarettes are less vulnerable to price increases than their much safer counterparts: e-cigarettes. It is also important to remember that populations with a lower socioeconomic status, who share a higher burden of tobacco-related diseases, are even more sensitive to the proposed tax increase.

It is important that the potential of e-cigarettes to mitigate the risks associated with combustible cigarettes be recognized. Therefore, it is imperative that the total cost of e-cigarettes and vapor products remain at a level that encourages, rather than discourages, people to choose these less harmful products. Doing so will reduce the incidence and cost of tobacco-related disease.

Thank you,
Carrie Wade
Director of Harm Reduction Policy
R Street Institute