Medical Xpress

Tobacco cos. make payments under state settlement

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The top U.S. cigarette companies have made their payments as part of the longstanding settlement in which some cigarette makers are paying states for smoking-related health care costs.

Philip Morris USA, America's largest cigarette maker owned by Altria Group Inc., said Monday that it made its full annual payment of about $3.1 billion as part of the 1998 Master Settlement Agreement.

The Richmond-based maker of Marlboro, Virginia Slims and Parliament cigarettes said the payment includes about $203 million that it says it doesn't owe that was deposited into a separate account and will try to get back through negotiations or arbitration.

No. 2 R.J. Reynolds Tobacco Co., owned by Reynolds American Inc., based in Winston-Salem, North Carolina, paid $1.84 billion this year. The maker of Camel, Pall Mall, Kool and other brands deposited a portion it disputes—$461 million—into a separate account, as allowed under the settlement.

No. 3 Lorillard Inc., Greensboro, North Carolina-based maker of Newport, True and Maverick brand cigarettes, paid $900 million this year, including $115 million it disputes.

Philip Morris USA said it has paid more than $62 billion under the settlement and previous agreements since 1997. RJR has paid more than $30 billion under the agreements, and Lorillard has paid about $15 billion.

As part of the landmark settlement to reimburse states for smoking-related health care costs, participating tobacco product manufacturers agreed to make billions in payments to 46 states, Puerto Rico, the U.S. Virgin Islands, American Samoa, Guam, the U.S. commonwealth of the Northern Mariana Islands and the District of Columbia over more than two decades. States first received full payments under the settlement in 1999. It was estimated that the companies would pay about $206 billion over 25 years.

A provision in the settlement entitles tobacco companies to a reduction if they lose market share to competitors that did not participate in the agreement. Participating companies must prove the states did not adequately enforce laws requiring those competitors to place funds in escrow accounts in case of future litigation. The 2013 payments by all three companies were offset by credits from a recent agreement with more than a dozen states, Washington and Puerto Rico to resolve disputed amounts. The credits were $483 million, $202 million and $164 million for Phillip Morris, Reynolds and Lorillard, respectively.

The billions in annual payments come amid criticism from the federal Centers for Disease Control and Prevention that states are using only a small amount of the money to fund tobacco-prevention programs, making it harder to reduce death and disease caused by tobacco use. The settlement did not mandate that the money was to be used for anti-tobacco and stop-smoking programs.

While states on average have never spent as much the CDC would like, the total has declined dramatically in recent years as states grapple with budget deficits that have forced layoffs, furloughs and cuts for basic services. Many also have raised tobacco taxes in order to increase revenue and supplement funds provided by the tobacco industry.