



## TOBACCO PRICING IN MARINE CORPS EXCHANGES

30 MAR 17

**BACKGROUND:** The Department of Defense (DoD) Tobacco Policy Memorandum 16-001, Department of Defense Tobacco Policy, 8 Apr 16, requires that with respect to the pricing of tobacco products, pending revision of The Department of Defense Instruction 1330.09, Armed Services Exchange Policy, 7 December 2005, prices in the United States (including territories and possessions) shall match the prevailing local price in the community. The price will also be set at a level that includes the tax rates in the local community.

Outside the United States, shelf prices shall fall within the range of shelf prices for that same product in exchange outlets in the United States. For shared markets outside the U.S., the exchange service representing the preponderance of the military population in the shared market will determine the price. Prices in ships stores aboard U.S. Navy vessels will be comparable to the prices at the exchange outlets located at each ship's homeport. Assistant Secretary of Defense Memo, DoD Tobacco Pricing Policy, 21 Feb 17, requires all military exchanges to implement the price change no later than 30 March 2017.

### **ADDITIONAL SOURCES:**

DoD Tobacco Policy Memorandum 16-001, Department of Defense Tobacco Policy, 8 Apr 16  
ASD Memo, DoD Tobacco Pricing Policy, 21 Feb 17

## General Qs & As

### **Q. Why are tobacco prices changing?**

**A.** On 8 April 2016, the Department of Defense (DoD) signed a memorandum that requires that "with respect to the pricing of tobacco products, pending revision of Department of Defense Instruction 1330.09, Armed Services Exchange Policy, December 7, 2005, prices in the United States (including territories and possessions) shall match the prevailing local price in the community, including all applicable taxes that local consumers pay when purchasing tobacco. Outside the United States, prices shall fall within the range of prevailing prices for that same product established in outlets of the defense retail systems inside the United States." Further guidance was issued in a 21 February 2017 memo from the Office of the Secretary of Defense providing implementation details.

### **Q. Why are prices including the effect of sales tax? Aren't purchases at military exchanges tax free?**

**A.** All purchases at military exchanges are tax free. Customers are not paying sales tax when they purchase tobacco products at a military exchange. The new policy requires that the final price charged for tobacco products match the prevailing price in the local community, including the effect of sales tax paid. The "sticker price" of tobacco products in a military exchange should be similar to the final price of those same items at civilian retailers.



**Q. When will the new prices go in affect?**

A. The new prices for tobacco products sold on military bases as well as ships stores is scheduled to go into effect 30 March 2017.

**Q. How much of an increase will there be to the price of tobacco products?**

A. Increases in tobacco product prices will vary by state and local communities.

**Q. What facilities will be required to adjust tobacco prices?**

A. This new DoD policy applies to all military retail outlets that sell tobacco products as well as to ships stores.

**Q. How will this affect prices on ships?**

A. Prices of cigarettes and other tobacco products for sale in ships stores afloat are set based on Navy Exchange tobacco prices at the ship's homeport.

**Q. Will prices of any other products besides cigarettes be affected?**

A. This initiative affects all tobacco products sold in military exchanges including cigars, smokeless tobacco, e-cigarettes, and vaping.

**Q. Will prices at overseas exchanges be affected?**

A. Yes, prices of tobacco products at overseas military exchanges shall fall within the range of prevailing prices for that same product established in outlets of the defense retail systems inside the United States.

**Q. How will this change affect all military retail facilities in a common market?**

A. DoD resale outlets in the U.S. (to include morale, welfare, and recreation outlets that sell tobacco products) which substantially share the same local community will sell tobacco products at the same price. For shared markets outside the U.S., the exchange service representing the preponderance of the military population in the shared market will determine the price.

**Q. How does the MCX anticipate this policy change will affect its sales?**

A. MCX anticipates a decrease in units sold and tobacco sales, and potentially a decrease in ancillary sales of other merchandise purchased at the same time as the tobacco.

**Q. Will the MCX price match policy extend to tobacco products?**

A. In accordance with Department of Defense policy, tobacco prices at all military exchanges shall match the prevailing price in the local community, including the effect of all applicable taxes. Therefore, the MCX price match policy will not extend to tobacco products.

**Q. Will the MCX accept manufacturers' coupons?**

A. At this time, the MCX does accept manufacturers' coupons for tobacco products as it does for other products sold in MCXs.



**Q. How will the new prices be determined and at what frequency will prices be compared to the local market?**

**A.** Tobacco pricing surveys will be conducted at least quarterly. The standard method for determining the prevailing price for tobacco products will be by a commercial third-party vendor using commercial scanner data. Surveys will include pricing data from competitors such as mass merchants, gas stations, tobacco stores, club stores and drug and convenience stores.

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