

February 5, 2007

Mr. Frank W. Foote  
Director, Regulations and Rulings Division  
Alcohol and Tobacco Tax and Trade Bureau  
P.O. Box 14412  
Washington, D.C. 20044-4412

Re: *Notice No. 65*  
*Proposed Rule about Tax Classification of Cigars and Cigarettes*

Dear Mr. Foote:

This letter is in response to the proposed amendments to 27 C.F.R. parts 40, 41, 44 and 45 set forth in Notice No. 65 issued by the Alcohol and Tobacco Tax and Trade Bureau on October 25, 2006.

Schweitzer-Mauduit International, Inc. (SWM), headquartered in Alpharetta, Georgia, is a major supplier of reconstituted tobacco wrappers and the world's largest supplier of fine papers for the tobacco industry. Since the early 1960s, we have made cigar wrappers and binders at our facility in Ancram, New York using a two-step process that we developed. We have sold reconstituted tobacco cigar wrappers and binders for more than forty years, and over the years our customers have included almost every cigar producer in the world. Our cigar wrappers currently cover the majority of "little cigars" and a high percentage of large cigars produced and marketed in the United States. Additionally, our products include cigarette paper, plug wrap and tipping paper used in manufacturing cigarettes. Because we supply the materials used to wrap both cigars and cigarettes, we are uniquely qualified to comment about the proposed new rule distinguishing between these tobacco products.

SWM believes that the new tests for distinguishing between cigars and cigarettes contained in the proposed TTB regulation are based on a misunderstanding of cigar wrappers made from reconstituted tobacco. In particular, the proposed regulation improperly treats a tobacco product wrapped in a "substance containing tobacco" differently – and much less favorably – than a tobacco product wrapped in leaf tobacco. This distinction is inappropriate because cigar wrappers such as those made by SWM are very similar to leaf tobacco and should be treated the same as leaf tobacco. Machine-made little cigars have been in the marketplace for nearly forty years and became popular long before the Master Settlement Agreement. Tobacco products wrapped in both SWM's wrappers and leaf tobacco should properly be classified as cigars.

In keeping with ATF Ruling 73-22 and other laws and regulations affecting the characterization of cigars, Schweitzer-Mauduit supplies all our U.S. customers who manufacture little cigars solely with wrappers that consist of at least two-thirds by weight dark air-cured



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tobacco. We use the same type of tobacco that is used in large cigars. To the maximum possible extent, we maintain all tobacco character in processing. Our cigar wrappers have the same rich brown color as natural tobacco, and their taste closely resembles the taste of leaf tobacco. The most important difference between our reconstituted tobacco cigar wrappers and natural leaf is the fact that our wrappers have enough tensile strength and consistency to be used on cigar-making machines.

Reconstituted cigar wrappers are not just brown cigarette paper. The technology and ingredients for making reconstituted tobacco cigar wrappers and binders are fundamentally different from the technology and ingredients for making cigarette papers.

Schweitzer-Mauduit manufactures cigarette paper using the following process.

First, SWM cooks cellulose fibers (generally flax straw) in very hot caustic, to remove the brown-colored components that hold the individual fibers together.

- The resulting pulp is bleached with chlorine, to remove the remaining color bodies and to achieve a very clean, very white fiber. These cellulose fibers are cut to length and beaten.
- The cellulose fibers are mixed with calcium carbonate (chalk) to achieve the desired level of permeability. The white fibers as well as the added white chalk and starch also give the paper its desired white, opaque appearance. The resulting pulp is formed into paper on a papermaking machine.

Finally, cigarette papers are treated with about 1% by weight of an alkali metal salt, usually sodium or potassium citrate. When the paper is burned, the citrate makes it form a pleasing light-colored ash.

The basis weight of cigarette paper is kept as low as possible, usually around 25 grams per square meter. Permeability of cigarette paper is carefully controlled and ranges as high as 100 Coresta units for commercial grades. Cigarette paper has a low average moisture level and does not need humectants, preservatives or refrigeration to avoid spoilage.

In comparison, Schweitzer-Mauduit manufactures reconstituted cigar wrappers and binders using the "Two Step Process," as follows:

- Schweitzer-Mauduit starts with tobacco as the major ingredient in all wrappers and binders. Typically, SWM uses tobacco stems, scraps, stalks and lamina leaf. We extract the tobacco with water and separate the soluble components from the fibrous components of the raw tobacco. We do not bleach tobacco.
- To the tobacco fibers, SWM adds a small amount of unbleached softwood fiber to make the tobacco sheet stronger. Maintaining a minimum of two-thirds tobacco, SWM also includes some additives such as humectants and fillers, which vary by grade to provide

desired characteristics such as burn rate, ash whitening, and taste. The mixture is then formed into a web.

- Separately, the extract or soluble portion of the tobacco is concentrated and then reapplied to the tobacco base web. This second step adds flavor and aroma to the tobacco sheet and makes an especially moist, more natural wrapper. The finished product is then dried and slit into bobbins, to be used in manufacturing machine-made cigars.

In addition, there are many differences between finished cigarette paper and finished reconstituted tobacco cigar wrappers and binders.

- Tobacco reconstitution is a very difficult and costly process. As a result, reconstituted tobacco cigar wrappers are much more expensive than cigarette papers.

Reconstituted tobacco webs are not as strong or as well-formed as cigarette paper – so the processes of making cigar wrappers and cigars cannot operate at very high speeds. SWM's machines that make cigarette paper run as much as four times faster than our machine that makes cigar wrappers. Additionally, our customers' cigarette-making machines run up to seven times faster than cigar-making machines.

Although cigarette paper is made from fibers that are naturally brown, cigarette paper itself is almost always bleached white. The few makers of cigarettes that use colored paper typically start with white paper and dye it. In comparison, cigar wrappers start with brown tobacco and keep tobacco's characteristic color throughout the manufacturing process.

Cigar wrappers contain some nicotine, whereas cigarette papers contain none.

The basis weight of cigar wrappers is high, usually between 35 to 50 grams per square meter. Conventional cigarette papers are much lighter.

Because of the high tobacco content of cigar wrappers, their ash is very gray when burned – not like the white ash of cigarette papers.

The permeability of cigar wrappers is not easily controlled – unlike the permeability of cigarette papers, which is precisely controlled.

- Cigar wrappers have a pH that is very similar to the pH of leaf tobacco. Likewise, smoke from cigar wrappers has a pH that is very similar to the pH of leaf tobacco smoke. In each case, cigars have a more basic pH than cigarettes.
- Cigars have a much stronger, harsher taste than cigarettes.

Another aspect of the proposed new regulation that gives us concern is the reliance on total reducing sugars to determine whether an article is a cigar or a cigarette. We believe that some types of large cigars were omitted from the study analyzing total reducing sugars. This aspect of the regulation would cause a sizable part of the large cigar market to be reclassified as cigarettes because of their high content of total reducing sugars. This result is unreasonable because these cigars have all the attributes of a traditional cigar – large size, typical cigar shape and have been recognized as cigars since their introduction approximately forty years ago.

The proposed regulation would have an adverse economic impact on both Schweitzer-Mauduit and most U.S. cigar manufacturers, by increasing taxes on products that are now considered cigars and thus decreasing their market share.

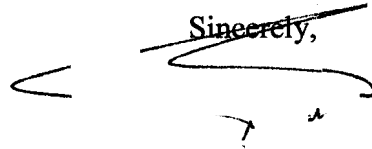
Most companies that make cigars in the United States utilize reconstituted tobacco wrappers because these wrappers allow them to make cigars at commercial speeds. Relatively few U.S. cigar makers use natural tobacco leaf because the process is too slow for a manufacturer who is paying U.S. labor costs. A rule which places cigars made from reconstituted tobacco wrappers at a disadvantage will disproportionately harm cigars made in the U.S. and favor imported cigars instead.

Schweitzer-Mauduit makes all our cigar wrappers and binders in the United States. Our Ancram Mill employs 126 people, in an area that is geographically remote from other major employers. Our sales of these products to U.S. customers represent a material component of our total corporate income. We have already experienced significant adverse impacts to our primary business of making fine papers for cigarettes in recent years because of the effect that increased taxes and the Master Settlement Agreement have had on cigarette consumption. Implementing the proposed new regulation is likely to cause further harm to our business and our employees.

Schweitzer-Mauduit believes that the standards contained in ATF Ruling 73-22 and other longstanding rules provide all necessary guidance in differentiating between cigarettes and cigars. We note that the statute defining cigars and cigarettes has not changed, and we question the need for a standard that will change the classification of many products that have been accepted as cigars in the U.S. marketplace for decades. However, if these standards are to be amended, we respectfully request that the TTB's definition recognize the primary importance of having a cigar wrapper with a high tobacco content. We suggest that a cigar should be defined as a roll of tobacco wrapped in a tobacco leaf or other substance containing at least two-thirds tobacco.

In May 2004, Schweitzer-Mauduit invited representatives of the TTB and ATF to visit our Ancram factory to observe our operations. SWM gave the visiting officials a thorough tour of the reconstituted tobacco manufacturing process and showed them reconstituted tobacco being produced. Schweitzer-Mauduit is hosting a facility tour for TTB representatives again this month, and we will be happy to host additional visits for other interested persons.

We would like the opportunity to meet with your representative personally to discuss this matter further.

~~Sincerely,~~  


Otto R. Herbst  
President – The Americas

cc: The Honorable Kirsten Gillibrand  
The Honorable Timothy E. Skud  
The Honorable John J. Manfreda  
Cigar Association of America