

Advancing Public Health and Public Revenue:
A Pre-Budget Submission to the House of Commons
Standing Committee on Finance

Canadian Coalition for Action on Tobacco

February 2016

Executive Summary

The Canadian Coalition for Action on Tobacco (CCAT), comprised of leading health organizations in Canada, urges strengthened federal action to combat the tobacco epidemic. Tobacco is the leading preventable cause of disease and death in Canada, killing 37,000 Canadians annually. In Budget 2016, it is recommended that the federal government implement the following measures.

Federal Tobacco Control Strategy

1. Enhance Health Canada's Federal Tobacco Control Strategy by providing additional funds to strengthen youth prevention programmes, cessation programmes, mass media, legislative and policy development, enforcement, research, and other tobacco control initiatives.

Measures related to tobacco taxation

2. Tax herbal non-tobacco products for water pipe (hookah) smoking at the same tax rate as water pipe tobacco.
3. Reduce the duty-free import allowance per eligible traveller entering Canada to 25 cigarettes, or equivalent for other tobacco products. An interim change could be to reduce the limit to 100 cigarettes or equivalent.
4. Ensure that a person has reached the minimum tobacco sales age in the province/territory of entry (age 18 or 19) to be eligible for the duty-free import allowance, instead of the current approach of age 18 Canada-wide.
5. Eliminate the income tax deductibility of all tobacco advertising/promotion expenses.
6. Extend the tobacco manufacturer corporate income surtax to all tobacco companies, including tobacco companies that are only importers.

Contraband Prevention

7. Implement further measures to prevent tobacco contraband, including:
 - a. Convert the border post at Cornwall into a two-part border post, with part 1 in Massena, NY (current plan) and part 2 at the foot of the bridge in Cornwall itself (current location).
 - b. Establish a strategy to block raw materials being supplied to illegal cigarette factories.

These recommendations are components of a broader comprehensive federal government tobacco control strategy that should include plain and standardized packaging; enhanced picture warnings on packages of all tobacco products (not just cigarettes and little cigars); banning flavours including menthol in all tobacco products; regulation of electronic cigarettes, and numerous other initiatives.

Introduction

There is a pressing need to reduce the devastating burden of the tobacco epidemic. Tobacco use is the most significant preventable cause of disease and death in Canada, causing 37,000 Canadian deaths each year. Smoking rates in Canada, including among youth, remain unacceptably high, even without including rates of use of tobacco products other than cigarettes. The 2014 Canadian Community Health Survey found a current smoking prevalence of 18% for Canadians aged 12+, representing 5.4 million Canadians. While considerable progress has been made, enormous work remains to be done.

The recommendations in this submission should be implemented as part of a broader comprehensive federal government tobacco control strategy that should include plain and standardized packaging; enhanced picture warnings on packages of all tobacco products (not just cigarettes and little cigars); banning flavours including menthol in all tobacco products; regulation of electronic cigarettes; and numerous other tobacco control initiatives.

This submission is on behalf of the Canadian Coalition for Action on Tobacco (CCAT). CCAT members include: Action on Smoking and Health (Alberta), Canadian Cancer Society, Canadian Council for Tobacco Control; Canadian Dental Hygienists Association, Canadian Lung Association; Coalition québécoise pour le contrôle du tabac; Heart and Stroke Foundation; Non-Smokers' Rights Association; Ontario Campaign for Action on Tobacco; and Physicians for a Smoke-free Canada.

Enhance Federal Tobacco Control Strategy

Recommendation 1: Enhance Health Canada's Federal Tobacco Control Strategy by providing additional funds to strengthen youth prevention programmes, cessation programmes, mass media campaigns, legislative and policy development, enforcement, research, and other tobacco control initiatives.

Given that tobacco is the most significant preventable cause of disease and death in Canada, a sustained, well-funded Health Canada strategy is crucial. While smoking rates have declined, an enormous amount of work remains to be done to keep up with the ever evolving tobacco industry and to combat the tobacco epidemic

Health Canada's current tobacco control budget of \$38 million per year should be increased significantly to implement many initiatives as part of a comprehensive federal tobacco control strategy. For example, there are no longer any Health Canada advertisements in mass media to discourage smoking. The Canadian Tobacco Use Monitoring Survey should be conducted annually (instead of every two years) with more detailed questions on usage as well as products to provide better surveillance and marketplace information. Further, among other measures, a wide range of programme initiatives should be enhanced.

Not only does \$38 million represent only 1.2% of the contribution of tobacco excise duties to general revenues, but with 10.7% of youth (aged 15 - 19) smoking on average 9.2 cigarettes per day, as much as \$83 million in federal tobacco excise duties are collected for consolidated revenues based on youth smoking. The 18% of Canadians who smoke deserve to have much more of the taxes and duties they pay invested to help them quit.

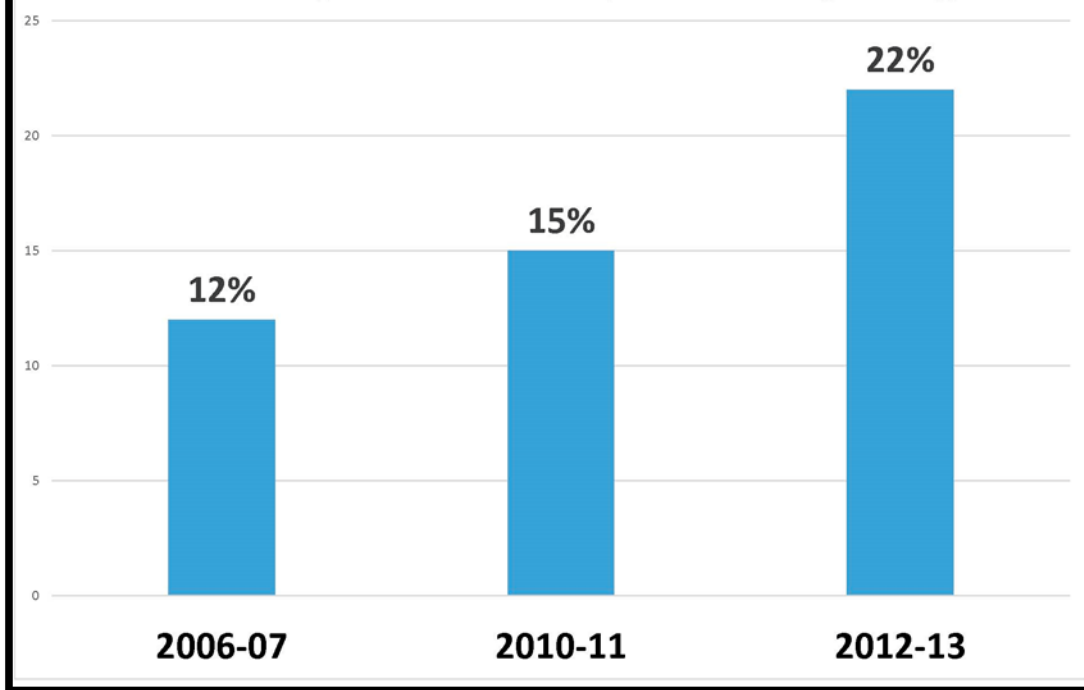
Health Canada's annual tobacco control budget of \$38 million or \$1.06 per capita is much smaller than the comparable US federal government annual tobacco control budget C\$850 million or C\$2.67 per capita (US\$666 million, US\$2.09 per capita, exchange rate 1.2765).

Strengthen measures related to tobacco taxation

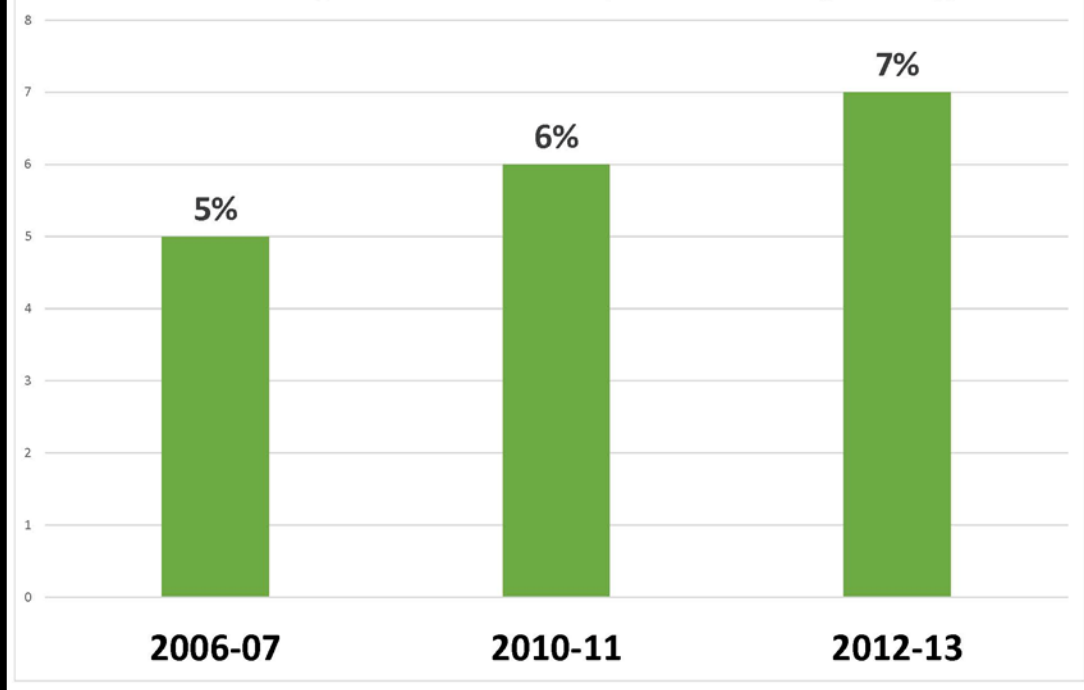
Recommendation 2: Tax herbal non-tobacco products for water pipe smoking at the same tax rate as water pipe tobacco.

Water pipe (hookah) smoking is increasing in Canada, with ever smoking of water pipes almost doubling among high school students between 2006-07 and 2012-13. While a considerable proportion of this would be smoking of tobacco through water pipes, there are also non-tobacco herbal products intended for water pipe smoking. The following graphs depict increasing water pipe smoking among Canadian high school students.

Ever smoked water pipes among Canadian Grade 12 high school students (Youth Smoking Survey)



Water pipe smoking (past 30 days) among Canadian Grade 12 high school students (Youth Smoking Survey)



The growth of water pipe smoking is a worldwide phenomenon that is also occurring in the U.S., in Europe and in many developing countries. It is essential that there be an effective public health response, including taxation.

Taxing herbal non-tobacco products for water pipe smoking at the same per gram tax rate as water pipe tobacco would provide public health benefits (by discouraging water pipe smoking, given that water pipe smoke is toxic and carcinogenic) as well as public revenue benefits. This would also assist by simplifying and streamlining enforcement. Some water pipe products in Canada purport not to contain tobacco when in fact tobacco is included in the product. By taxing all water pipe smoking products, it would be much easier to deal with this tax evasion.

Recommendation 3: Reduce the duty-free import allowance per eligible traveller to 25 cigarettes, or equivalent for other tobacco products. An interim change could be to reduce the limit to 100 cigarettes or equivalent.

Canada has one of the world's highest duty-free import allowances. Travellers entering Canada can combine not only 200 cigarettes, but also 200g of roll-your-own AND 200 tobacco sticks AND 50 cigars.

The trend internationally is to lower duty-free import allowances (see Annex 1). New Zealand and Australia have lowered the allowance from 200 to 50 cigarettes. The Hong Kong limit is just 19 cigarettes, while many EU countries have a limit of 40 cigarettes, depending on travel mode.

While reducing Canada's duty-free import allowance would increase federal revenue, it would increase provincial revenue by even more given that provincial tobacco tax rates are much higher than federal tobacco tax rates. This measure would also increase prices paid by consumers, and thus discourage tobacco consumption.

Recommendation 4: Ensure that a person has reached the minimum tobacco sales age in the province/territory of entry (age 18 or 19) to be eligible for the duty-free import allowance, instead of the current approach of age 18 Canada-wide.

At present, youth who are 18 can use the duty-free import allowance, even if entering in a province/territory where the minimum tobacco sales age is 19. This contrasts with alcohol, where the minimum age to import duty-free depends on the minimum alcohol age in the province/territory of entry.

The *Returning Persons Exemption Regulations* under the *Customs Act*, or as necessary the *Customs Act* itself, should be amended to implement this straightforward recommendation.

Recommendation 5: Eliminate the income tax deductibility of all tobacco advertising/promotion expenses.

At present, the Canadian government is in effect subsidizing tobacco advertising/promotion by giving a deduction from income taxes. Examples of ongoing permitted tobacco promotion in Canada include direct mail, advertisements in bars, retail signage, bonuses to retailers for increased sales volume, and payments to retailers to stock a product. Given efforts to reduce tobacco advertising/promotion, an income tax deduction for remaining tobacco advertising/promotion should not be allowed.

There are other existing examples where certain business expenses are not deductible from income tax:

- only 50% of business meals and entertainment are deductible from income taxes (*Income Tax Act*, s.67.1);
- since 1977 there has been no income tax deductibility for Canadian businesses that advertise on US television/radio stations (*ITA*, s.9.1);
- advertising in newspapers is only tax deductible if the newspaper is at least 75% Canadian-owned, and if the newspaper is edited and published in Canada (*ITA*, s.19). If a magazine has less than 80% Canadian editorial content, then advertising in the magazine will only be 50% tax deductible (*ITA*, s.19.01).

Recommendation 6: Extend the tobacco manufacturer corporate income surtax to all tobacco companies, including tobacco companies that are only importers.

The federal tobacco manufacturer surtax has been in place since 1994. However, Imperial Tobacco Canada Ltd. – Canada’s largest tobacco company – no longer pays the surtax because the company shifted all of its production from Canada to Mexico in 2006. It is wrong for Imperial Tobacco to be exempt. The surtax should apply to all tobacco companies selling products in Canada.

The federal government should also ensure enforcement of laws so that multinational tobacco companies are not able to evade the surtax and other corporate income taxes.

Contraband Prevention

Recommendation 7: Implement further measures to prevent tobacco contraband, including:

- a. Convert the border post at Cornwall into a two-part post, with part 1 in Massena, NY (current plan) and part 2 at the foot of the bridge in Cornwall itself (current location).**
- b. Establish a strategy to block raw materials being supplied to illegal cigarette factories.**

There has been a significant decrease in contraband tobacco in Canada, as acknowledged by the tobacco industry. The federal government should implement additional measures to further reduce contraband. Two such measures are highlighted here.

Recommendation 7(a)

In mid-2009, there was a significant reduction in contraband entering Canada when the border post near Cornwall was moved from Cornwall Island to the foot of the bridge in Cornwall itself. The new location became a choke point for previous smuggling routes.

The federal government has announced an intention to move this Canadian border post to US territory in Massena, NY. Such relocation would no longer provide the contraband prevention benefits of the current location. Accordingly, it is recommended that there be a two-part border post (Part 1 in Massena, NY, and Part 2 in Cornwall itself) to accommodate multiple government objectives, including contraband prevention.

Recommendation 7(b)

Unlicensed, illegal cigarette factories on a small number of reserve territories in Ontario and Quebec are a very significant source of tobacco contraband in Canada today. It is essential that there be a strategy to shut down these illegal factories. There should be an effective strategy to block off-reserve the supply of raw materials (including leaf tobacco, cigarette papers/filters) intended for the illegal factories. Without raw material inputs, cigarettes cannot be manufactured.

Contact

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Annex 1

International Rankings of Lowest Duty-Free Import Allowances for Cigarettes³

The following ranks countries/territories with the lowest duty-free import allowances for cigarettes for arriving travellers:

| duty-free import allowance | Country |
|---|--|
| 0 | Barbados |
| 0 | Singapore |
| 0 | Sri Lanka |
| 19 | Hong Kong |
| 20 | Palau |
| 40 | Bulgaria ¹ |
| 40 | Estonia |
| 40 | Greece ¹ |
| 40 | Hungary ¹ |
| 40 | Latvia ¹ |
| 40 | Lithuania ¹ |
| 40 | Poland ¹ |
| 40 | Romania ² |
| 40 | Austria (at border with Samnauntal part of Switzerland only) |
| 40 | Slovak Republic ¹ |
| 50 | Australia |
| 50 | New Zealand (effective November 1, 2014) |
| 80 | Guatemala |
| 100 | India |

Notes

1. Applies to travellers by land or sea, but not by air.
2. Applies to travelers by land, sea and air.
3. Source: Canadian Cancer Society, "Duty-free Tobacco Sales and Import Allowances: International Overview" October 15, 2014.