



House of Commons
CANADA

Standing Committee on Public Safety and National Security

SECU • NUMBER 030 • 2nd SESSION • 39th PARLIAMENT

EVIDENCE

Wednesday, May 14, 2008

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Chair

Mr. Garry Breitkreuz

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• (1530)

[English]

The Chair (Mr. Garry Breitkreuz (Yorkton—Melville, CPC)): I'd like to bring this meeting to order.

This is meeting 30 of the Standing Committee on Public Safety and National Security. We're continuing our study of contraband tobacco.

We'd like to welcome, from the Canadian Coalition for Action on Tobacco, Mr. Rob Cunningham and François Damphousse; and from the Canadian Convenience Stores Association, Michel Gadbois.

The usual practice at this committee, as you probably know, is to allow an introductory statement of approximately ten minutes. We'll let all the witnesses have that privilege before we begin questions and comments.

If you're ready to begin, go ahead, sir.

[Translation]

Mr. François Damphousse (Director, Quebec Office of the Non-Smokers' Rights Association, Canadian Coalition for Action on Tobacco): Thank you very much, Mr. Chairman and members of the Committee, for giving us this opportunity to present our views on this important health and public safety issue.

My name is François Damphousse. I am Director of the Quebec office of the Non-Smokers Rights Association.

I have two basic messages for you today. First, it is important to reiterate that taxation is the most effective means of reducing tobacco use. That is why we are asking you today to do whatever you can to protect that public health policy.

Second, it is untrue that high taxes on tobacco products automatically result in contraband. The problem is much more closely linked to a lack of effective measures to control illicit sources of tobacco. To illustrate that point, I would like to refer to events that occurred in the early 1990s. Tobacco smuggling did not continue in the western provinces and Newfoundland and Labrador, despite the fact that they had not followed the lead of the federal government and other provinces, which drastically lowered their tobacco taxes in February of 1994.

We now know that the problem was due, to a much greater extent, to the fact that the three main tobacco manufacturers in Canada were, at the time, freely and deliberately supplying the contraband market, and that they simply stopped doing that once taxes went down in 1994.

In our view, it was a lack of action to control manufacturers' activities that caused an explosion of controls and activity, which has had serious negative impacts in terms of public health and government revenues. I am not exaggerating when I say that it took many years of sustained effort on the part of the federal government and the health community to recover from that crisis.

The current situation is no different now, other than the fact that, as mentioned last week by the RCMP, contraband cigarettes are no longer being produced by the major tobacco manufacturers; rather, the source is illegal manufacturing operations located in a number of different Indian reserves.

Once again, we are seeing that contraband products are more readily available in Quebec and Ontario, compared to other provinces, which have much higher levels of taxation. If the problem has continued to expand in the last six years, it is because more effort was focused on intercepting contraband cigarette runners, rather than on the real source of the problem.

Without appropriate action on your part, the contraband problem will continue to compromise much of the work that has been carried out—both yours and ours—to reduce smoking in Canada.

It is also important to point out that the effects of the contraband market are even more serious in Aboriginal communities, where smoking rates are already two or three times higher than in the rest of Canada. For several years now, we have been asking for a comprehensive package of measures to be developed to control the problem.

To talk about what that could include, I would now like to turn it over to my colleague, Rob Cunningham.

Mr. Rob Cunningham (Senior Policy Analyst, Canadian Cancer Society, Canadian Coalition for Action on Tobacco): Thank you, Mr. Damphousse.

I, too, would like to extend my thanks to the Committee.

My name is Rob Cunningham. I am a lawyer and senior policy analyst with the Canadian Cancer Society.

•(1535)

[English]

Tobacco contraband is an absolutely enormous problem. Urgent action is needed. We do wish to recognize that some measures have been taken by enforcement authorities and in the 2008 federal budget and some provincial budgets. We also wish to applaud the May 7 announcement by Public Safety Minister Stockwell Day. This represents the government recognition of the seriousness of the situation and a strong political commitment to move forward.

Perhaps I could invite the committee to grab our brief and turn to the final page. On the final page you have a graph with provincial and territorial tobacco tax rates. Ontario and Quebec have the lowest tobacco taxes but the highest rate of contraband. This shows that contraband is not a problem of higher taxes or demand, but rather of source of supply.

The key to success to controlling contraband is to target the source. We know the sources: illegal manufacturing operations on Kahnawake, Six Nations, Tyendinaga, and especially the U.S. side of Akwesasne in New York State near Cornwall.

Our recommendations for actions are as follows.

First, because by far the most important source is found on the U.S. side of Akwesasne, eliminating this source must be the top priority. The federal government must immediately persuade the U.S. government to shut down the illegal, unlicensed factories located there. The Americans must act. Indeed, it is in the interest of the U.S. to act for reasons of border security and national security. Criminals who exploit the Akwesasne territory by bringing cigarettes into Canada return to the U.S. with drugs, weapons, and sometimes people. If the situation were reversed and the U.S. were flooded with illegal cigarettes from Canada, costing U.S. federal and state governments more than \$10 billion annually by comparison, the U.S. government would insist that Canada take immediate action.

Note that the Mohawk Council of Akwesasne and the Akwesasne police, both on the Canadian side, should be praised for their on-reserve enforcement and collaboration with the RCMP and others, which is a positive distinction.

Second, prohibit the supply of raw materials, including cigarette packaging, filters, and paper in addition to leaf tobacco to anyone without a tobacco manufacturer's licence. By way of illustration, in Ontario the Gaming Control Act prohibits the supply of goods or services for gambling to anyone without a provincial gaming licence. For the Americans, control of raw materials headed to the U.S. side of Akwesasne would also be desirable, for example, by targeting leaf tobacco from North Carolina.

Third, establish a minimum bond of at least \$5 million to obtain a federal tobacco manufacturer's licence. At present, the current federal bond ranges from just \$5,000 to \$2 million. It is possible for a new, apparently small company to get a licence for only \$5,000 and begin manufacturing cigarettes in this country. This is a joke that needs to be changed. A meaningful bond would give the government financial leverage to encourage compliance. Breach of laws would mean that the bond would be forfeited in whole or in part.

Fourth, revoke licences of manufacturers acting illegally, including for violation of provincial tobacco tax laws.

Fifth, establish a full tracking and tracing system to monitor product shipments, as do Purolator Courier or Federal Express, and identify points of diversion.

Sixth, promote the opportunity to implement a first nations tobacco tax equal to provincial tobacco tax. There's very little awareness that this is already authorized by the federal Budget Implementation Act, 2006. First nations would require an agreement with the province in which they're located and first nations would keep the revenue from this tax. In terms of contraband prevention, there will be benefits in the long term, but realistically not much benefit materially in the short term.

Cowichan First Nation on Vancouver Island has a tobacco tax through different specific legislation, and under this 2006 legislation the Whitecap Dakota First Nation in Saskatchewan has a new liquor tax. The retail price is the same as off reserve, and the band council of the first nation receives the revenue. They're examples to consider.

For contraband prevention measures, there's a role for provinces, as some measures can only be implemented at the provincial level. Our seventh recommendation would be for provinces to implement a provincial refund system whereby cigarettes are shipped to reserves at a price that includes an amount equal to provincial tobacco taxes. After a sale to an eligible status native on a reserve, the on-reserve retailer then applies to the province for a refund, perhaps every two weeks. Five provinces currently have such as rebate system.

In Ontario, which doesn't have this system, it would help deal with the situation of products of Grand River Enterprises being found illegally in large numbers on the contraband market. Mr. Montour testified that he didn't want that and that laws should be toughened; he didn't specifically say what laws, though.

Our eighth recommendation is that there should also be a provincial quota system that limits the quantity of tax-exempt cigarettes shipped to each reserve, based on reserve population. Five provinces do this.

The ninth recommendation is that there should be distinct markings to distinguish between when provincial tobacco tax is paid and when it is not paid and the cigarettes are intended for on-reserve tax-exempt sale. Four provinces do this. It's easier to tell what is legal and what is not.

Immediate action and a comprehensive strategy are essential. Delays in taking action will mean that the problem will get worse, adversely affecting aboriginal and non-aboriginal health.

On a final note, aboriginal smoking rates are scandalously high. The most important explanatory reason for this is access to cheap cigarettes, including contraband cigarettes. Contraband is addicting aboriginal kids and non-aboriginal kids, and everyone agrees this should not continue. We must tackle contraband and complement this with the restoration at Health Canada of an effective aboriginal tobacco strategy.

Contraband is a population-wide problem of public health, public revenue, and public safety. This committee is to be commended for initiating this study. We look forward to any questions you may have.

Thank you.

• (1540)

The Chair: Thank you very much.

We'll now go over to our next witness. Please introduce yourself and explain that you are not just with the Canadian Convenience Stores Association. I think that will be helpful for us.

Thank you.

Mr. Michel Gadbois (Executive Vice-President, Canadian Convenience Stores Association): My name is Michel Gadbois. I'm the senior vice-president for the Canadian Convenience Stores Association. At the same time, I'm the president of the Quebec convenience stores association.

I will be doing my presentation in French simply because I'll be more precise and it will be swifter, but at the same time I'm very comfortable dealing with the questions in French or English.

Thank you.

[*Translation*]

On behalf of the Canadian Convenience Stores Association, or CCSA, I want to begin by thanking you for giving convenience store owners an opportunity to weigh in on the issue of contraband tobacco. In the next ten minutes, I will be addressing the following four issues: who we are and how contraband tobacco affects us; the responsibilities of both convenience stores and the government as regards the sale of tobacco; the repercussions of the current crisis; and, possible solutions.

First of all, who are we? The Canadian Convenience Stores Association represents 33,000 owners and managers of convenience stores across Canada, in the four main regions of the country: the Maritimes, Quebec, Ontario, the Prairies and Western Canada. We have four divisions for the country as a whole.

Who is a typical convenience store owner? It could be a mother or a father, often a newcomer to Canada. It would also be someone who is dynamic and hardworking, who may devote more than 60 hours a week to the business. It is someone with close ties to his or her community and the desire to serve that community. It is someone who employs young people, who often acquire their very first work experience at a convenience store.

The economic impact of convenience stores in Canada is considerable in every way. For example, we employ some 220,000 people in Canada. We pay out \$3 billion in annual salaries and, of course, we collect \$9.2 billion in taxes for the government every year—in other words, three times more than the salaries we pay—and that figure does not include gas. That amount does not, in fact, include gas taxes; only taxes on tobacco. Of course, in Quebec and other provinces as well, convenience stores also sell alcohol.

Convenience stores are among the rare businesses to still be managed within the family. In our opinion, it is very important that there continue to be room in Canada for this type of family business.

How does contraband affect convenience stores? First of all, retailers are in a very good position to have observed the astonishing increase in contraband occurring in Ontario and Quebec. They see this, first of all, through price changes; secondly, through lower sales; and, thirdly, through increased sales to minors.

For example, with respect to pricing, the price of a carton of contraband cigarettes has dropped from \$18 or \$20, two years ago, to \$5 or \$6 today, compared to \$70 or \$75 on the legal market. That clearly shows that supply is continuing to increase and that the product is more and more available and accessible.

As regards lower sales at our end, according to an internal study of convenience stores in Quebec, for the last two years, individual convenience stores have lost some \$2 million in revenues since contraband products began to appear. Of course, contraband was not always as prevalent a problem as it has become; it started slowly.

In 2007, based on an illegal market representing 30 per cent of the overall market, on average, in Ontario and Quebec, foregone sales amounted to \$2 billion. I repeat: \$2 billion! With respect to increased sales to minors, we have provided you with a copy of a study carried out in the youth segment to identify cigarette butts in schoolyards. In English, the name of the study is catchier than it is in French: it is the "Butt Study"; in French, because the word for butt is "mégot", the title isn't funny. However, the results published in the fall of 2007 show that some 11,000 cigarette butts from 105 schools in Ontario and Quebec were analyzed. Incidentally, methods were used to determine whether the butts were from legal or illegal products. The result was that 24 per cent of the butts in Ontario, and 35 per cent of them in Quebec, were contraband tobacco products.

That rate is similar to the one for the illegal market during the same period. It's huge. What that means is that the market is extremely prevalent in the youth segment, which represents a highly vulnerable client group. The figures show that the median—not the average—is around, or possibly higher than, 50 per cent. According to the figures presented in the study, in some schools, it is as high as 75 per cent, especially in lower income neighbourhoods.

• (1545)

I would now like to address the question of what the responsibility of convenience stores is in this regard. Owners have three major responsibilities when it comes to tobacco: to collect and remit taxes to the government; to enforce specific regulations regarding the sale of tobacco, particularly with respect to product displays; and, to prevent the sale of prohibited products to minors, whether it be tobacco, alcohol or lottery games.

Because the highest taxed products are sold in our stores—alcohol, tobacco, gas and products that are almost exclusively made up of taxes, such as lottery games—convenience stores remit some \$9 billion in taxes every year, as I mentioned earlier, not including gas.

In terms of product displays, what is happening now is ironic: even as the uncontrolled, illegal tobacco market is expanding with disastrous consequences, a number of provincial governments have recently introduced new regulations which will require convenience stores to rethink all their product displays, at their own expense, in order to hide products sold legally in their stores.

Despite the current context of illegal competition, the CCSA has undertaken to help its members comply by suggesting quick and effective solutions. Yet most convenience stores are going through a period where they are losing their income, and it is costing them between \$2,000 and \$5,000 to hide these products. That harkens back to the days of the Commission des liqueurs du Québec. Some of us are old enough to remember that time. Alcohol was hidden behind the counter, and handed over in brown paper bags. That hasn't changed, and I think people react badly to that kind of regulation.

In terms of sales to minors, we have deployed, all across the country, an innovative program for checking customers' ages called: "We Expect ID". This is a rigorous program whereby customers are asked for ID—a driver's permit, in Ontario. On-line training and certification is provided to retailers. There is also a mystery buyer program that allows us to see whether our members are in compliance or not.

Now let us look at the government's responsibilities with respect to contraband. The government has important responsibilities in this regard. The first and most obvious one is to ensure that people are complying with the law; the second is that the market is fair; and, the third is reducing smoking, particularly among young people.

In terms of law enforcement, a group specialized in smuggling control has been set up. Without prejudging its effectiveness, we can certainly say that its impact on this scourge will, at best, be extremely marginal and, at worst, be absolutely negligible, given the volume of traffic involved and the very low fines mentioned earlier.

In terms of market equity, the very high price differential between the legal product and contraband tobacco remains the primary cause of increased contraband. It is important to remember that 75 per cent of the cost of a carton sold is taxes—nothing but taxes.

Between 1999 and 2002, the Canadian and Quebec governments increased taxes on a carton of cigarettes by almost \$20 over a period of only three years. It was at the end of that period that contraband really took off, exceeding at the time—and even now, five years later—the highest levels noted in Quebec in 1994, during the period when contraband was at its peak.

As regards the prevention of smoking in young people, current contraband is gradually wiping out all the prevention efforts undertaken over the years, because tobacco has never been more accessible or affordable for young people than it is now.

What are the consequences of the current crisis? Well, history is repeating itself. In the early 1990s, after contraband reached the critical threshold of 30 to 40 per cent of the overall market, it proceeded to rise dramatically over a two-year period, reaching levels of 60 and 70 per cent. That is perfectly normal, and it would happen in any industry: once your distribution network is in place, the market is there and there is no competition, growth is exponential. Now it has reached a critical threshold. If current trends continue and contraband reaches levels such as 50, 60 or even 70 per cent, we can expect the following consequences.

First of all, criminal groups will engage a power struggle to control this huge and lucrative market, and because they'll be fighting over the same territory and customers, violence will increase in Canada and in street gangs. Young people will be smoking more and more, governments will see their tax revenues fall dramatically, and citizens will become increasingly cynical, in terms of their attitudes towards their government and its inability to enforce the law.

Our message is simple: we must all take our responsibilities when it comes to fighting contraband.

● (1550)

Convenience store owners have taken their responsibilities by launching an extensive campaign to mobilize people across the country, a campaign which includes the following: an anti-contraband advertising campaign in convenience stores across the country that will be launched in early June; the creation of a national coalition to fight contraband, that will bring together all groups and organizations concerned about contraband tobacco at the national, provincial and regional levels; on May 26, we will begin a tour of seven major cities in Quebec; and finally, we will be getting convenience store owners on board to carry out a campaign all across the country aimed at federal and provincial elected officials, and even senators.

In closing, I would like to emphasize, once again, the role of government and its responsibilities. There is not only one solution; there are many. There is an obvious need to review tobacco taxes as a whole, including the very interesting areas mentioned earlier. I am going to say something now which may hurt: it may be necessary to lower taxes temporarily in order to bring back the market or, at least, return us to a situation where we can prevent the exponential growth we are seeing today. Something must be done, and that is one of the temporary measures that could be taken.

As well, there is a need to start a constructive dialogue with the Aboriginal nations, to tighten up enforcement measures and increase police resources at the federal and provincial levels, particularly on the U.S. side. That is the most significant source of the problem we are currently experiencing. We must make the public aware of the dangers of contraband tobacco, which is something we will be starting to do in a comprehensive manner all across the country.

In closing, leadership and political will on the part of the government are the key to success when it comes to eliminating contraband. We believe that retailers, social groups and governments can work together to rid us, a second time—and for the last time, we hope—of the national scourge which contraband tobacco has become.

Thank you.

[English]

The Chair: Thank you very much.

Now we'll begin a round of questions and comments.

We'll begin with the Liberal Party. Mr. St. Amand, please.

• (1555)

Mr. Lloyd St. Amand (Brant, Lib.): Thank you very much, Mr. Chair.

Thank you, gentlemen, for your very cogent presentations to us.

The problem, which is a significant problem, was identified long ago. I think all the committee members appreciate your recommendations or suggestions on how to deal with this.

I have a couple of questions that merit short answers and then a question that merits, I hope, a more fulsome answer.

I appreciate that these are best estimates only, but with respect to the quantity of cigarettes manufactured in the United States, which end up of course illegally here in Canada, what percentage are manufactured in the U.S. relative to what is being manufactured illegally here?

Mr. Rob Cunningham: On one occasion the RCMP said 90%. On another occasion they said it's by far the biggest source. So there's not a precise number, but it's very big.

Mr. Lloyd St. Amand: The vast majority, though, it seems.

Mr. Rob Cunningham: Absolutely.

Mr. Lloyd St. Amand: I believe it was you, Mr. Cunningham, who indicated that the rate of smoking among aboriginals is, in your phrasing, "scandalously high". Relative to non-aboriginals, what is the approximate ratio?

Mr. Rob Cunningham: The Canadian average is 19%. There are different surveys. It's 44% to 60% among the aboriginal population. It's more difficult to measure, but it's two to three times the Canadian average.

Mr. Lloyd St. Amand: I've more than a passing interest in this, because my riding of Brant includes Six Nations of the Grand River, on which live approximately 11,500 individuals, but on which are being operated over 300 smoke shops or smoke shacks.

I've heard stories, and correct me if I'm wrong, that non-aboriginals come to Six Nations and essentially buy their year's supply of cigarettes, load up their truck or their van. Within 90 miles of Six Nations probably are four million to four and a half million people. Is what I'm hearing correct, that non-aboriginals are clearly complicit in the outrageous purchasing of these illegal products?

Mr. Rob Cunningham: Yes. In very large numbers non-natives are abusing the tax exemption rights of status aboriginals, and that's a problem. It's not only purchases on reserve, but taking large quantities off reserve for informal, illicit distribution to workplaces and homes. Yes, it's an enormous problem.

Mr. Lloyd St. Amand: With respect to your last recommendation, Mr. Cunningham, to enable first nations to impose their own tobacco tax, do I understand that as it is now they would have the authority to

do that and that it has, in fact, been implemented in some communities?

Mr. Rob Cunningham: There are 29 that implement the goods and services tax. But just in terms of a tobacco tax equal to provincial...there is one, Cowichan on Vancouver Island, and one is done for alcohol.

Mr. Lloyd St. Amand: With respect to Cowichan, what has been the result?

Mr. Rob Cunningham: It's been in place roughly for a decade, and where the band has had the revenue from purchases on their territory, their experience has not been sufficiently documented, in terms of quantifying the revenue or measuring smoking rate changes, for example. But clearly the higher prices will have a beneficial impact on decreasing smoking.

Mr. Lloyd St. Amand: But there would be no requirement that the tax imposed by a first nations community be commensurate to or equivalent to the provincial rate?

Mr. Rob Cunningham: In fact, it must be identical. That is the only option.

Mr. Lloyd St. Amand: All right.

I won't say your first recommendation is a weak one—I don't mean to speak disrespectfully—but "persuade the U.S. federal government to shut down illegal manufacturing operations..."? I'm sure they've already been cajoled, coaxed, begged to do that. Or is it your view that the efforts so far by Canadian governments—over the years they have been clearly less than persuasive—have not been forceful enough, or is it your view that we've made token requests only of the United States?

Mr. Rob Cunningham: I don't know what details may occur in private, but the public indications are that there have not been, at the ministerial level or at the secretary member of cabinet level, sufficient representations.

My understanding is that there are not adequate enforcement resources in the area. There's a recognition now that there's a problem, but the products are going north to Canada, so I think they're less sensitive to the importance of moving quickly, and I don't think there's necessarily a full appreciation of the magnitude.

I know there are different fora where members of Parliament or government representatives can raise this. I believe that when the full story is told, the Americans will agree that it's very much in their interest to find a solution to it. They have different enforcement options, they have different technologies, there are different approaches, and the Americans can help figure out what would be an appropriate way, including consultation, to deal with this.

• (1600)

Mr. Lloyd St. Amand: In terms of the enforcement in Canada, and again getting back to my example of a non-aboriginal who goes onto a reserve and buys however many hundreds of dollars worth of illegal product, what efforts, if any, have been made to intercept that individual as he or she drives home with the illegal cigarettes?

Mr. François Dampousse: Most of the time the RCMP comes out with press releases showing that they seized actual runners purchasing these products in large quantities on the reserves and distributing them across the provinces. That's a big problem, but the thing, for us, is that spending much of the resources trying to intercept the runners is not, in our opinion, an effective way of dealing with the contraband problem.

If they get caught, they get caught, which is why we've been advocating dealing with the source of the problem. In our opinion, that would be much more effective. We know where the sources are. We've been proposing measures that would address the issue outside the reserves by blocking off the supplies of raw materials to these illicit manufacturers. We believe that would be the much better strategy to deal with this issue, instead of going after just runners, who are going a little bit everywhere. The RCMP even testified in front of the Standing Committee on Health that they don't have the resources to go after all the runners with their products.

Mr. Lloyd St. Amand: Thank you, Mr. Chair.

The Chair: Monsieur Ménard, please.

[*Translation*]

Mr. Serge Ménard (Marc-Aurèle-Fortin, BQ): Thank you, Mr. Chairman.

To begin with, I would like to offer you all my sincere congratulations. Your opening statements were clear, as is your take on the problem. In addition, your suggestions with respect to the action that is required are extremely convincing. Of course, that is no surprise coming from the Canadian Coalition for Action on Tobacco, which exclusively represents organizations with no other interest than public health. Indeed, it was formed for that purpose.

I also want to commend the Canadian Convenience Stores Association. I understand that you have a certain interest to protect, but we all recognize as well that, in order for you to practice a legal commercial activity, you have to be protected—and that is our responsibility—against illegal competition. Your brief is generally objective and has convinced me of your desire to defend the public interest.

The one difference I note in your suggestions—and I would like you to talk a little more about this—is that the Coalition believes lower taxes will have no effect. In those provinces where taxes were very high, there was neither a decrease or increase in contraband. Basically, acting on the source is the most effective response.

I would be interested in hearing your comments. My question is addressed to the Canadian Convenience Stores Association.

Mr. Michel Gadbois: There are a number of points there. I do not want to claim expertise that neither I, nor the other organizations around the table, do not possess.

There are reasons why Ontario and Quebec are exposed to higher rates of contraband: their geographical situation, naturally, and their population density. There is a market there. Elsewhere, you can imagine that it's not very profitable to be running around to every corner of Saskatchewan to try and drum up enough business. That is the main reason why there will always be contraband in areas that are more densely populated. That is one of the factors behind the difference in terms of the extent of contraband, which is not only based on the amount of tax included in the cost of cigarettes.

The other point is: why us? Well, to begin with, experience—it's as simple as that. There has been contraband before. I know that the nature of the contraband at the time was quite different; on the other hand, its manifestations were exactly the same. The rate of growth I referred to earlier is exactly the same. You only need 30 per cent of the market. Anyone who owns a business knows that once you have a solid market share, you can begin to expand. Even though it's illegal, it is a business supported by people because of the huge difference in price. There is absolutely no comparison.

Our proposal is not based solely on lower taxes, which would be ridiculous, particularly given the difference that has arisen since 2002-03. However, I firmly believe that a temporary tax reduction is a potential solution. In the short term, the government would not risk a catastrophe in the market, because the catastrophe is there already. Until it is able to control the problem at the source, the government could, in the meantime, introduce a reasonable rate of taxation and thereby convince smokers to behave intelligently and come back to the market.

Some studies show that, at a given rate of taxation, you have either that option or public disenchantment. The government will not be losing money if it brings in an increase, or gets it from the contraband market. However, if that doesn't work, it can be returned to the same level.

• (1605)

Mr. Serge Ménard: Yes, I understand perfectly what you are proposing. As I have very little time, I would like to move on to a different topic.

The federal government has just announced a program. Some of the measures that are planned are very similar to your suggestions. However, some people believe that is woefully inadequate. You must be familiar with the program the government recently introduced. What is missing from that program?

Mr. François Dampousse: Having read the RCMP's strategic plan, I would say that the most important and most problematic factor is what is going on on the U.S. side and in the St. Regis Reserve.

A number of measures have been proposed that we have been advocating for a number of years—such as tracing inputs that end up in the hands of illicit manufacturers. However, the strategic plan does not necessarily address the problem of illicit manufacturers operating on the St. Regis Reserve. It would have been very appropriate for the RCMP to review these proposals, and potential solutions, in cooperation with their colleagues in the United States, in order to control the problem in St. Regis, particularly since it is the most significant source of contraband cigarettes being sold on the Canadian market.

Mr. Serge Ménard: That's one thing. Is there anything else?

Mr. François Damphousse: Yes.

Mr. Rob Cunningham: The Department recognizes that this was one step in the process. To that could be added specific legislative measures that we proposed today in our testimony. All of these elements, along with new legislation and new tools to assist the police, should, in our opinion, be part of a comprehensive strategy.

Mr. François Damphousse: As well, I believe the penalties for contraband tobacco are far too low to allow us to control the problem. We hear anecdotal information about people getting involved in the contraband market, rather than the illicit drug market, because they know that, if they get caught, the fines will not be very high and that there may be no prison term.

People must be made to understand that activity surrounding contraband cigarettes goes well beyond the simple fact of providing people with contraband cigarettes. There are other activities involved as well. As the RCMP stated, organized crime is behind this and, ultimately, we are encouraging it by buying these cigarettes. In my opinion, police should be in a position to impose much higher fines.

•(1610)

Mr. Michel Gadbois: I fully agree, and I would like to add something in that regard. There is no doubt that the biggest problem now is on the U.S. side. If the situation were reversed and Americans felt that their security was threatened... We know the kind of connections the RCMP has been able to make—namely, who is being financed through this type of crime.

I fully support that position. However, the major criticism I would make relates to the silo approach taken by the RCMP and the government, as though there were only one solution—one which focuses on security. But, as you just mentioned, we need to engage the entire population, because this is a scourge that affects our behaviour, our mores, our way of life and young people.

We have to engage Canadians on this issue. Security or coercion are not the only methods. We need to talk to the Aboriginal people, and discuss the issue broadly.

[English]

The Chair: Thank you very much.

Before we go to the NDP and Ms. Priddy, I have a follow-up on this.

You talked about geography, and it wasn't clear to me why they would distribute in Ontario and Quebec rather than in New York State, where there are many more people.

The other question I have in relation to what you've just said is, why is this not a threat on the American side? What are they doing differently, and maybe successfully, that we're not doing?

Mr. François Damphousse: The governor in New York State has raised this issue for New York. New York has one of the highest tax rates in the United States. Some of the products that are manufactured in some of the reserves, specifically St. Regis on the U.S. side of the border, are also flooding the State of New York.

This has been raised. They're trying to find solutions to the problem. There are reports coming out that this is more and more prevalent in the United States, specifically in New York State. The problem has not yet reached the point of what I believe has been happening in Canada, in Ontario and Quebec.

Geographically, it's mostly here because of where the St. Regis reserve is located. We have to be very careful. That's why we need to have the collaboration of the American authorities on this issue, to work with the Canadian authorities to deal with this problem.

Mr. Rob Cunningham: Just to elaborate, the \$6 carton price that we see in Canada often is not found in New York State in the material quantity that we see in Ontario and Quebec. The reason for that, I believe, is that the manufacturers on the U.S. side of Akwesasne can get away with supplying to Canada; they could not get away with supplying to the U.S. If it happened in material quantity, the U.S. enforcement authorities would be all over them.

I believe that's why the problem is going north. There is some problem with interstate smuggling. There's a problem with some quantities on which New York state tax is not paid, but federal tax is paid in the case of contraband in the U.S. most of the time.

The Chair: Thank you.

Ms. Priddy.

Oh, I'm sorry; go ahead.

Mr. Michel Gadbois: I am not an expert on tobacco, but the type of tobacco we use here is not the same as in the U.S. This tobacco comes in through containers in the port of Montreal and elsewhere. That's what we're talking about. This product goes back to the U.S., is used in manufacturing on the reservations, and comes back to us. Americans don't like that type of cigarette.

A voice: *Ce n'est pas le cas.*

The Chair: I thought it was coming up from North Carolina, somebody said.

Mr. François Damphousse: That was the situation. What was happening in the 1990s was that tobacco manufacturers were exporting large quantities of containers to the United States to duty-free warehouses, and they were basically shipped back. Sometimes it was only on paper; the cigarettes were just delivered to contraband networks at the time.

Now it's a totally different situation, in which it's not the Canadian manufacturers who are involved, but illicit manufacturing operations on the U.S. side of the border. They're probably getting their raw materials from, for example, North Carolina.

The Chair: Okay.

Mr. Michel Gadbois: Just on that issue, as far as the process is concerned, I believe you're right. As far as the type of tobacco is concerned, we are wrong; it is not American tobacco.

The Chair: Okay.

Ms. Priddy, you will have seven minutes, please. Go ahead.

Ms. Penny Priddy (Surrey North, NDP): Thank you, Mr. Chair.

Thank you for being here, and thank you for your presentations.

I'm interested in the answers to two or three questions. First, I know, because I come from British Columbia, that there are certainly a number of bands who have arrangements with the federal government around applying a tax that goes back to community development in the particular band. But if most of the tobacco is being produced in the United States, I'm not quite sure how that would work in the same way. I can understand, if it's being produced here, and you tax here, and so on, but if it's being produced in the United States and shipped up here, that would have a significant difference, I would think, in terms of applying a tax.

Secondly, I wouldn't mind people speaking, just for a minute, about geography. I think you mentioned that there are 37,000 small businesses, but we've only heard about Ontario and Quebec. I realize that's where the largest problem is, but I would be interested in whether the only problem in the country is in Ontario and Quebec or whether we actually see it in other provinces but simply in smaller numbers. I expect that's the case, but I would be interested in having you speak to that.

Concerning the \$5 million bond that has been a recommendation at least by Mr. Cunningham, are there any bands that are legally producing now who would not be able to put up a \$5 million bond? Obviously a couple of the folks who were here the other day could do that and not even blink an eye at having to do it.

Secondly, I'd be interested in knowing—I don't know, and maybe people at the table do—whether, when people are fined, the whole bond or part of the bond is removed or taken away.

Could you start with those?

•(1615)

Mr. Rob Cunningham: With respect to the bond, my understanding is that there are only two manufacturers located on a first nations reserve that have both a federal and a provincial manufacturing licence: Grand River Enterprises in the Six Nations, and another manufacturer—Choice Tobacco is part of the name of the company.

So I don't know the answer to that question. There aren't many that have both a federal and a provincial licence.

I think this is a very serious business and that if a business person is going to enter into an area with such risks to public security, public revenue, and public health, this would be possible.

One option would be to pay the manufacturer interest, if there's a question with respect to cost of capital—that is an option to consider—so that they would get interest every year. But the bond would remain with the government, in the event that there's a compliance problem.

There's a problem now, and we heard testimony about it, of how many fines are imposed by the courts that are simply not collected. If you have a bond, you can deal with that problem. If they don't pay their fines, it comes right out of their bond, and they have to replenish their bond or lose their licence.

So there are different ways you could structure administration of the bond. There has to be due process; there has to be some legitimate protection, so there's not.... Nonetheless, there has to be an ability for law enforcement authorities to act quickly in the public interest.

Mr. François Damphousse: To answer your first question about how we would impose a tax structure when you're talking about illicit manufacture in the U.S., south of the border, as we've heard the RCMP mention, the source of illegal cigarettes is not only on the U.S. side of the border. They've also mentioned Six Nations, Tyendinaga, and Kahnawake, south of Montreal. It would be in everybody's interest if there could be such a system put in place for those reservations that are manufacturing those cigarettes. We could come to a level playing field, and they could benefit from the financial resources from the sale of the cigarettes.

I strongly believe we have to do something here prior to asking our American friends to do something. If we can demonstrate that we are taking care of our own business, we would be in a much better position afterwards to meet with our American counterparts and say, "Why aren't you proposing this type of solution to, at the very least, control the source of smuggling coming from the St. Regis reserve?"

Ms. Penny Priddy: What about geography?

Mr. Michel Gadbois: For the rest of Canada, I would honestly say if you go west, the level of contraband is below 10%. If you go east, to the Maritimes, it's growing very fast now. There's easier access, I presume. There are other ways of getting the product in. We're talking about one type of product, but there are manufactured products coming in through containers, so they arrive in different ports.

One of the questions we should ask...and I'm not an expert on this, but I have my personal opinion. We have to make a distinction between the raw product itself, where it comes from, and the transformation of that product into cigarettes. It's evident that the transformation part is done in the U.S., and partly here. The big question is where do they get that raw product? I'm still not comfortable with the idea that it comes from the U.S. We don't have American-blend tobacco in the cigarettes we smoke. It's just so different.

•(1620)

Mr. François Damphousse: Actually, I'm told that some farmers in North Carolina are actually growing Virginia flue-cured tobacco that is used in Canadian cigarettes. They could be supplying the illegal manufacturers on St. Regis, and those cigarettes will be provided to the Canadian market.

Ms. Penny Priddy: Okay, so it's still American; it's just that they're growing Canadian product.

Mr. François Damphousse: Well, you've heard the debate through other witnesses between GRE and Imperial Tobacco about where the raw materials were coming from. One was saying 80% is from Canadian farmers, the other was saying it's mostly coming from the U.S. farmers. Regardless of the source, what we're calling for is a control of these shipments of raw materials. That's what is important. You have to look into all possible sources of raw materials going to those illicit manufacturers, and blame them. Fine them. Make it an unwise financial decision for them to supply the raw materials to these manufacturers.

Ms. Penny Priddy: I have a last question.

The Chair: You have 13 seconds.

Ms. Penny Priddy: Okay...and now they're gone, so somebody else gets the next seconds. I'm sorry about that.

The Chair: There's a 13-second loop in your brain. I can give you....

Ms. Penny Priddy: I thought it was way longer than that on some days.

The Chair: All right, if it's not coming to you we'll go over to the government side.

Mr. MacKenzie, please.

Mr. Dave MacKenzie (Oxford, CPC): Thank you, Chair, and thank you to the panel for being here.

I certainly have a sense that first off, there's no one body that's responsible for all of this. One of the bodies that seems to always be missed in all of the discussion is the guy who buys the cigarettes. I haven't seen much from folks who want to do anything about discouraging them. We point fingers at the aboriginal community, we point fingers at the tobacco industry, but we haven't pointed fingers yet at the people off the reserve who are buying these cigarettes—perhaps children or whoever—or the people who are transporting them.

Particularly CCAT has a mandate, and I understand that it's perhaps very aggressive towards the tobacco manufacturers. I think our friend here mentioned something about being in silos. Have you considered working with some of those groups, getting out of our silos, working together to discourage the Canadian public from buying cigarettes when, first off, we don't know what's in them? We're fairly satisfied that it's not necessarily in the best interests of either the people who manufacture them, the people who illegally import them, or the people who sell them, but for certain, I think we can say it's not good for the health of the people who smoke them.

There could be a concerted effort to work together with the legitimate industry to try to cut down that demand that's out there by people—for a bargain. That's why they're buying it, but they may not know what's in the bargain. Have you considered working together?

Mr. François Damphousse: Actually, in one survey that was conducted by Health Canada, I think, Phoenix Communications, it was mentioned that even part of the public doesn't believe it's illegal to buy these cigarettes. There's no police intervention preventing them from doing so.

I think your idea would be appropriate. For example, Health Canada has a strong budget for a national campaign. Why wouldn't

Health Canada look into that issue, launching a national campaign about the illegal market? That would be part of a global strategy.

Actually, the impact we've had over the past ten years in tobacco control to reduce smoking in Canada has been through a global strategy. We've been restricting advertising, we've had health warnings, we have tobacco taxes, bans on smoking in public venues, and so on. Why can't we do the same thing?

Mr. Dave MacKenzie: Have you done anything collectively to try to generate that?

I've talked to the aboriginal community, and they're willing to work. The tobacco industry is willing to work. I think we need at least another leg on this chair so that everybody's working towards the same end. It's counterproductive to the Canadian variety store owners when their regular customers for bread and milk buy their cigarettes in a contraband or counterfeit way just because they're cheap.

Mr. Michel Gadbois: I'll split my answer into two different parts.

Yes, we are doing something. At the end of my presentation I announced our campaign that we're going to launch in all the stores in Ontario and Quebec, to begin with. It will be a very visible campaign, with the best tools we have, because we have traffic—3.2 million Canadians go through our stores every day. So we do have some clout in trying to tell people what's happening. There are two types of clients, by the way, but I'll get back to that in a moment. But, yes, we are going to have a public campaign, and we're going to run it through Quebec and Ontario to begin with, but we won't stop. We've started the battle and we'll be out there. You'll see it. It will begin by early June.

Second, I mentioned the National Coalition Against Contraband Tobacco. We've invited every group, even the health group, if they wish, to be part of that. We just want to start that coalition. It's not something we want to control, it's something we want out there. There's a website ready. We want individuals, politicians, groups, so that there's some kind of forum where we can attack what I would call the second part of my answer.

There's an expression that seems very scientific in psychology. It's called cognitive dissonance. We know the problem; we don't want to hear about it. We don't like it. We know how bad it is, but we're pushing it away. What we want to do is put it out there so people have to face it.

Obviously, the smoker is saving a lot of money at the moment. That's tough to fight. They're not very happy to be smokers—I don't know of many smokers who are—but they are smoking. They say, "Listen, I can save maybe \$3,000 to \$5,000 a year. Hey, with the price of gas, it's worth it." That's why we're talking of different ways to approach these people.

And I know that saying “You don't know what you're smoking” is not the best method for the tobacco issue. Let's say it's a non-regulated or non-supervised product. We could sell that a bit. But I think the smoker will move if we show that there is something, there is an alternative, because in a way, the smoker thinks they're getting even. It's a product that's taxed 75%. They're saying.... I'm not going to use the words in English; I know they're not proper. But that's what they say to government.

If we're talking about these people we want to get back, because they're basically the clients of that whole problem, we have to find a way not only to communicate, but also to show to them, by some of the measures we present—and they're not easy, and I know people don't like some of them—that we're ready to try to put all these measures away. We're going to fight that and have a reasonable discussion with them to say “Yes, we're all working together to make sure it's a level playing field and you're not getting...by the government.”

• (1625)

Mr. Dave MacKenzie: That's my sense. When we talk to people everybody understands that government doesn't have all of the answers, the industry doesn't have all of the answers, you folks don't, and certainly the aboriginal community doesn't. But if we ever got to the point where we could all work together collectively, a little bit here and a little bit there, it would ultimately be good for everyone.

Your comment about the silos is so appropriate. If we can get ourselves away from pointing fingers at one another and say “We need to find that solution”.... And I know you folks have done a good job in dissuading people from smoking cigarettes of any type, but I'm concerned that we're not doing a very good job of telling the people who buy contraband what it is they're smoking and what they're supporting.

Mr. Rob Cunningham: On Monday, Mr. St. Amand asked the question about what the law says. It's a violation of provincial and federal laws for a consumer to purchase or possess this product. Where there's federal tax paid but no provincial tax, and it's supposed to be sold to a native on a reserve, it is illegal for a consumer to purchase or possess it. In theory, under the Excise Act their vehicles could be seized.

That's what the law is.

Mr. Dave MacKenzie: My suggestion is that we need to all work together to make the public that buys this understand that. I think you folks and government and others can certainly work together and come to those kinds of solutions. It won't be the ultimate solution, but it's certainly a part of it.

• (1630)

Mr. François Dampousse: If I could add, just for information, you have to understand that for the health community, our interests are much different from the interests of the tobacco industry. They have their economic interests and we have public health interests. Based on the behaviour of the tobacco industry, we're very reluctant to work with the tobacco industry on issues like this.

Mr. Dave MacKenzie: We won't get anywhere if we keep pointing fingers at one another.

Mr. François Dampousse: I understand that. I just wanted to tell you why sometimes it's very difficult to work with some of these interest groups.

The Chair: Let's go over to the Liberal side again. Mr. Cullen, please.

[Translation]

Hon. Roy Cullen (Etobicoke North, Lib.): Thank you very much, Mr. Chairman.

I would like to thank all the witnesses for their presentation today.

[English]

I have a few questions. I'm going to put them out, and maybe you can respond.

First of all, just coming back to the point that Mr. Gadbois mentioned about the direction of the flow of illicit tobacco, if I'm an illicit cigarette manufacturer in Akwesasne on the U.S. side, I can get tobacco that is pleasing to Americans or I can get tobacco that's pleasing to Canadians, and I can manufacture cigarettes that will sell in the United States or in Canada.

It seems to me they're saying it's easier if I ship them up north than if I ship them south. Is that not correct?

Mr. Rob Cunningham: That's absolutely correct.

Hon. Roy Cullen: Okay, thank you.

I'm intrigued with the idea of the bond, Mr. Cunningham. For the legal manufacturers it's a slam dunk, but for those that are illicit, first you have to send someone in to find them, and then they have to be told they're manufacturing illegally. That's a problem to start off with. Then they say they'll become legal, and you ask them for the bond. I'm just wondering how practical or useful it would be for illicit manufacturers.

Mr. Rob Cunningham: For somebody who is completely illicit, it's not going to help. We need different remedies for different aspects of the overall problem. There are some people who have a licence who have bad-faith intentions. We need something to discourage that type of situation, and a bond would help.

A \$5,000 bond is exceptionally low. My understanding is that in Ontario it's \$500,000 to start.

Hon. Roy Cullen: Yes.

Mr. François Dampousse: In Kahnawake there were news reports at one point that the CRA granted something like 10 or 11 licences to manufacturers on the reserve, and they're not operating legally. So why have those licences been granted? It's so easy to get them.

Hon. Roy Cullen: Okay. I think that's a good suggestion.

The idea of regulating the supply of raw materials has come up before from other witnesses. When I presented that to the departments, the CRA—especially—and the Department of Finance said it's not very practical because the cigarette papers and the filters are used for other purposes. Do you think that's a legitimate argument against implementing something like this?

Mr. Rob Cunningham: No, I do not. I think it's viable. You could structure it in a way that would work. We do it for gaming goods and services in Ontario. If somebody is a manufacturer and they're doing so knowingly, you can get them. There are certain product categories that are used for cigarettes only—a package that says “cigarettes” on it, for example, or the tipping paper. Certain things are unique.

I think there's a way it could be done.

Mr. François Damphousse: Not only that, but the tobacco industry testified on Monday that they would be willing to share the information on where most of these products are coming from. For the authorities it may be a bit more complicated to get that information, but I'm pretty sure it would be fairly easy for them to find out where to get those products. And once you make it illegal for those suppliers and slap them with a stiff fine, it will change their behaviour. It will not be economically interesting for them to supply the illicit manufacturers.

[Translation]

Hon. Roy Cullen: Mr. Gadbois, I really like your idea of a campaign, but I hope that you are not suggesting that tobacco taxes go down. In my opinion, that is not the direction in which we should be moving.

Mr. Michel Gadbois: I know that this would not be popular. Experience has shown, as I pointed out earlier, that it was a successful approach in 1994, even though the nature of the contraband was quite different. The fact remains, though, that its manifestations are the same. The incredible gap from \$6... I think it is irresponsible to say that, at \$6 a carton, as opposed to \$75 or \$70 a carton, there is just no point in fighting it and we may as well give up. Even if all the taxes were removed, it would be \$6, compared to...

So, I think we need to clearly understand what exactly we are talking about. I see this as a temporary measure that could be taken in order to determine what share of the illegal market we could get back—by reducing the rate of taxation. It's important to understand that there are retailers out there who are suffering, and here we have a market expanding exponentially. Also, we don't want this market to go beyond 50, 60 or 70 per cent. So, something must be done.

We are trying to develop ideas and this is one that could be effective, but it must be temporary. One thing is for certain: without controlling the market, taxation has proved the kind of effect it has on two occasions. It creates a tempting parallel illegal market. I know that is not a popular thing to say, and people are always telling me: “You're not politically correct”. So what! That's the reality. It's not the only option, but as soon as you mention it, everyone says how awful it is, that you can't do that, that it's terrible. But look what happens when you raise taxes: ultimately, you are not even able to control the product entering the country.

So, do consider that among other options; don't just dismiss it. Let us not automatically shut the door, saying that it's impossible.

Because, at some point, we will have to get a message out there to our customers and to smokers. Why would they come back to this market? Do you honestly believe that, in three months time, we will be in a position to completely cut off the flow, and that no illegal product will be entering the market anymore? It will take at least a year before we can begin to control the product coming into Canada.

And what is going to be happening in the meantime? How far are we prepared to let the illegal market expand? That is the reality. It's unpleasant to have to say so, as I freely admit, but that is the reality of the market at this time. The market hasn't dropped; it has done nothing but expand for the last three years.

First of all, how far do we think it has to grow? Second, if people don't take this action and we find other solutions, that's great. From the standpoint of the retailer or the manufacturer—or anyone—the higher the taxes, the better the margins for the seller. That is a market reality. So, we are not talking about cutting specific amounts; we are just talking about restoring a legal market.

The logic is as simple and crude as is the reality that stares us in the face every day.

• (1635)

[English]

Mr. François Damphousse: Very quickly, I come from Quebec, from Montreal. One of the disastrous consequences of the tax rollback in 1994 was a doubling of smoking prevalence among teenagers. It went from 19% to 38% in a few years because of that, so that's disastrous.

The government predicted they would lose a couple of hundred million dollars after just one year. They've lost close to \$1 billion in revenues, and right after the tax rollback strangely enough everything stopped. Yet provinces out west and in Newfoundland kept their prices high, kept their taxes high. How come there was no smuggling? Automatically, because of those high prices they should have had some smuggling transferred to those provinces. The only reason it stopped is that the tobacco manufacturers decided to provide the products to the illegal market. When they knew that five provinces rolled back their taxes, they said they'd won. They had 70% of the market in which the prices were very low and they made huge profits.

The only one who benefited from the tax rollback was the tobacco industry. It didn't drop its prices. It kept its prices at the same level. Only the provincial governments and the federal government decided to roll back taxes, and we pay the consequences. We've been working very hard for the past ten years. It took us ten years to get back to the levels we were at in 1993. So we'd better not make that same mistake.

Mr. Michel Gadbois: I just want to add one element here, because I know we disagree and everybody says not to raise it.

The problem is we always say we've succeeded in curbing youth consumption. We did, but in the past three years it's gone up simply because they have access. We have to face reality. If one cigarette costs under 5¢, obviously kids will be drawn to that and to other things. That is what we're living with today.

Tell me tomorrow that we can stop it at the source, with all the propositions they've put on the table, and I would love it. We agree that with high taxes we have better margins on it. But again, the reality at the moment is that teens have access to the product more than they ever had in the past ten years. That's the reality.

• (1640)

The Chair: We'll have to end that round. It's double the time anyway.

Ms. Thi Lac, go ahead, please.

[*Translation*]

Mrs. Ève-Mary Thaï Thi Lac (Saint-Hyacinthe—Bagot, BQ): Thank you very much for being here. I am very pleased to have this opportunity to hear your comments and to begin a debate on the whole issue of contraband cigarettes.

Although I realize that the availability of illegal tobacco products is a scourge, my greatest concern relates to prevention among youth. I am part of the generation which was made aware of the harmful effects of tobacco. It is always surprising to hear that, although young people cannot buy their supply of tobacco in convenience stores or regular businesses, they are still the largest consumers of these products.

Consequently, contraband cigarettes are extremely popular with young people. Also, we tend to trivialize the fact that we see young people smoking. Young people are not allowed to buy tobacco products, and yet we see lots of teenagers smoking around the schools. It's really a shame.

We know that certain groups are more vulnerable to contraband tobacco than others. Do you think teenagers are one of those groups, and if so, why?

Mr. François Damphousse: Your question relates to changing use and the prevalence of smoking, particularly in Quebec or in Canada. According to the Canadian Tobacco Monitoring Survey conducted by Health Canada twice yearly, the prevalence of smoking is continuing to fall among young people.

The only area where smoking has increased in the youth population is with respect to the sale of cigarillos. The Government of Quebec will now be introducing two regulations aimed at controlling the sale of cigarillos, because of the candy flavours being used, and so on.

If the contraband market did not exist, we would be seeing better results in terms of lower prevalence among young people. But there are fears. Because of the availability of cheap cigarettes, because of contraband, the progress observed in Quebec is starting to slow. We don't want to see the trends starting to be reversed. Remember what happened in 1994, when taxes were lowered: surveys were conducted at the time by the Department of Health. The fact is smoking rose dramatically among youth when that occurred.

Does that mean that there is no issue in the youth population as regards contraband cigarettes? No; there is clearly a problem there. And why does this problem exist? Because cigarettes are cheap. Even economic studies have shown this: if you increase the price of cigarettes by 10 per cent, the prevalence of smoking among young people drops by 12 per cent, because they have less spending power.

Contraband cigarettes create a problem. That is why the Quebec Ministry of Health and Health Canada must continue their efforts to implement policies aimed at reducing tobacco use among the population as a whole, including young people. However, public education campaigns are also needed to raise awareness of this issue among Canadians.

Mrs. Ève-Mary Thaï Thi Lac: Thank you very much.

Yes, Mr. Gadbois.

Mr. Michel Gadbois: I fully agree and support Mr. Damphousse's position.

There again, I have a feeling that people have forgotten that they were once 14 or 15 years old. We know what the reality is; the point is not to ignore it. In terms of the numbers for periods where there is said to have been a drop, that's fine if we know that the legal market corresponds to 100 per cent of the market. However, if we only know about 40 per cent of the market, as was the case in 1994, when we did not know what was happening with 60 per cent of the market—in my opinion, these statistics really don't mean much. That is the first thing.

But there is something else as well. What is terrible for young people these days is a whole series of circumstances. It is not just the fact that they will have access to tobacco or that it's cheap. We need to remember what we were like at that age. How does it work in a group of teenagers? First of all, it's a business. When you're under 18, you can do this, because no one can touch you. And once you get started, you continue to do it with other products; that's perfectly normal. That is the logical connection that is made. Access is open. This is a group fighting for a lot of money. And we are in the process of showing young people that the government is absolutely powerless, and that this is going to continue. They think it's absolutely hilarious. Have you seen them on television? They walk around with their bag and one says he got it for \$5; the other, for \$6. It's verging on the ridiculous. I talked earlier about the cynicism in society. And that is the stage we have reached now: young people are cynical about our way of enforcing laws.

In addition, we have to consider the network that this creates, and the street gangs. These young people are not learning to work at a steady job in our convenience stores; they think we're a joke. Why work for minimum wage when you can earn \$2,000 a week as a runner? And they are untouchable, because they are under 18. That is the reality. That is why I don't like to hear people trying to develop these grand theories. Our values and our mores are appropriate, except that we now find ourselves in a situation where all of that has been distorted. That's why we all have to work together to return things to normal.

When things have returned to normal, there will still be campaigns and taxes, because there have to be. But we have to control this problem. I can assure you that it won't be easy. Because the message we are sending to young people is that there are easy ways of making money, and that smoking is cool and cheap. That is what has been happening in the last two years.

•(1645)

Mrs. Ève-Mary Thai Thi Lac: In your recommendations, you say that a certain number of measures are needed, such as an actual tracking and tracing system. What do you mean by that? Could you give us additional details as to what this tracking and tracing system would involve?

Mr. François Dampousse: I'm sure you are familiar with companies such as Purolator and UPS. When they pick up your package, using the Internet, you are able to find out exactly where your package is in the delivery process. We should be using exactly the same system to trace tobacco products on the Canadian market. When a product is as harmful and deadly as tobacco, it is not right that authorities are unable to trace it.

A new system of marking using stamps—in other words, camouflaged marking—will be introduced. However, it will not include traceability. During the first contraband crisis, cigarettes manufactured by RJR-MacDonald, for example, were seized by the RCMP, and it was obviously impossible to determine where the cigarettes had come from, even though the brand marked on them was “Export A”. Of course, the company was not about to say that they came from its plants. Had a tracking and tracing system been in place, we could simply have used a scanner, looked at the marking on the packages, which is often hidden, and we would have had access to all the necessary information.

[English]

The Chair: We'll move over to Mr. Goldring now, please.

Mr. Peter Goldring (Edmonton East, CPC): Mr. Gadbois, your position with the Canadian Convenience Stores Association is executive vice-president. How much of a problem is this within your 31,000 retail convenience stores that serve 3.5 million customers every year? Is there under-the-counter traffic in the stores? What do you do to police this type of activity? Do you have a zero tolerance level for it? Is that a problem within the stores at all, or with other retail stores too?

Mr. Michel Gadbois: It will always be a problem when, as a retailer, you have illegal competition for a product that you legally sell.

Mr. Peter Goldring: What do you do to try to cope with this?

Mr. Michel Gadbois: There are two things. One is that we have a program called “We Expect ID”, which I talked about when I made my presentation. It is a program aimed not only at tobacco but also at lottery and alcohol. They are not to be sold to minors. That's one way for us to know that these people who get training and who get their employees involved in the program are serious, responsible, legitimate retailers.

Mr. Peter Goldring: But this isn't just selling to minors, it's selling an illegal product. Surely these circumstances must have surfaced from time to time. What course of action do you use? Do you withdraw the association membership from the people? What type of motivation do you have to encourage people to do the right thing within your chain?

Mr. Michel Gadbois: Obviously, the retailers who would be caught would have no place in our association. Now, this is not something we can police easily, because not even the police can police it easily.

Have we been informing our retailers? No, we haven't, simply because we've never had members who were fined or caught. There might be retailers out there who are involved.

Mr. Peter Goldring: I guess my point is that there seems to be a generalized feeling of acceptance within many of the population, as you said yourself. There are people who are under pressure to pay for the high price of gas and the groceries on the table who don't see it as being a law at all; they see it as being a benefit. If your membership has that too, and if we have a lax approach to it in our organized system of handling it, then it's not surprising we'd see that laxness across the country in other areas too.

•(1650)

Mr. Michel Gadbois: The feeling the retailers have at the moment is that they are too supervised by rules and regulations in all aspects of their business. For anything they do, they either will get a fine or they can lose their business. For example, with the lottery system, they can lose the right to sell the product. For them, that's like losing their business.

Mr. Peter Goldring: With 31,000 stores, you haven't had to take that action yet over the past years?

Mr. Michel Gadbois: No, and I would say that in most cases they can't even compete with the illegal market, simply because they don't have the system and they don't run after their clients. At the same time, I would say that they are so susceptible or open to police or government intervention that they're less inclined to get involved in it, because the consequences are not the same as for the runner who goes around and has no business.

Mr. Peter Goldring: In the other vein, looking at the product that's on the table there, I'm seeing there's not much attention paid to packaging, so you don't have formal manufacturing in the truest sense of big assembly-line manufacturing of multicoloured packaging, etc. You're just using plastic bags with cigarettes. I would suggest the supply of the materials for that is pretty readily available.

There is small-run assembly manufacturing. There are home rollers, but there are also machines that can pump out 10,000 units. Is this smaller assembly an equal problem? How do they compare to the big-production assembly units in the States, the smaller-capacity ones that can run out 10,000 units in a week?

Mr. Michel Gadbois: I wouldn't know, because they're on Indian reservations. I don't think they—

Mr. Peter Goldring: Would it be in the overall community, not just on the Indian reservations?

Mr. Michel Gadbois: I don't know how big a plant you need to have a business, obviously. But you have to understand that when you're dealing with illegal cigarettes, the market is controlled by criminals. If you try to compete with them in your own way, try to take some markets or sales away from them, I don't think you'll survive.

Mr. Peter Goldring: To turn back to the 31,000 owners of your small stores, I would think that with little monitoring of the situation, there'd be a tendency for a small entrepreneur who has a small franchise to augment his income by having his own manufactured cigarettes that he sells in two, three, four, or five franchise stores in a smaller capacity. Is there any way of determining this?

Mr. Michel Gadbois: The only problem with that logic is that you're talking about monitoring. There is little monitoring on the criminal side, but there is immense monitoring on our side. We have inspectors every day; we have to write reports every day. A small-business owner can tell you that if he were involved in that type of activity, it would be lot easier to catch him than to catch the real criminals.

To me, that focus is on the wrong place. I'd much rather talk about the real...than speculate on who.... There will always be some mavericks, some individuals who we wouldn't like to be associated with, but I'd say they are very much a minority. Because of our control system and the government's monitoring system—and god knows, we complain about being too controlled—it's not an issue as far as we're concerned.

The Chair: Thank you.

Mr. Cullen, please.

Hon. Roy Cullen: Thank you, Mr. Chair.

Looking at this issue, it seems to me there are a couple of principles that say don't have laws that aren't supported by the people generally, and don't have laws that you can't enforce. It seems to me these are the horns of this dilemma.

We now have laws that are being flouted. We had the list the other day of how many laws are broken to bring illicit cigarettes to the market.

In terms of the policy generally, I suspect that if you're a middle-income or a low-income Canadian and you're a smoker, you could say you're addicted. You're going to spend so much on smokes, period. So you're going to find a way to get them so it fits within your budget.

In 1994 I didn't support our government's decision to ramp down the taxes. I was elected in 1996, not that it would have made a row of beans difference, but I was proud when we brought in the measures in 2000, when we upped the taxes, when we dealt with the issue of taxing at the plant door so the cigarettes didn't just come around into Canada from the U.S.

We knew at that time, our government knew, that as you ramped up excise taxes you were risking the possibility of more contraband. I understand why there would be cynicism. I'm cynical myself, because the laws aren't being enforced. I think what we should be doing is recognizing that this is going to happen, that it is happening, and deal with it. I think it's retrograde to....

I was glad to hear you say, Mr. Gadbois, that if there were solutions you'd be happy to see cigarettes taxed properly, and you even said there'd be higher margins for you. I don't know your business, but I found that interesting.

I think it comes down to political will. Having said that, this is a very complicated and difficult problem. But to just drop our hands and say they beat us.... We ramped up the taxes, we knew that was going to create more contraband, and we sort of just said, "Well, sorry. We give up."

That's just a comment of mine. I think we have to deal with this no matter how complicated it is.

I'll allow you to come back, Mr. Damphousse, in just a minute, but I want to ask a question with respect to the revocation of licences for manufacturers. I think that's a good idea as well.

Mr. Damphousse, you mentioned that there were a whole bunch of these manufacturers who were licensed. They probably got in with these bonds of \$5,000 or something. They're operating illegally now, and no one is doing anything about it. That doesn't seem to me to be very appropriate.

• (1655)

Mr. François Damphousse: What is very important for Canada, why they need to deal with this issue.... I don't know if you're familiar with the WHO Framework Convention on Tobacco Control. It's the first international public health treaty from the World Health Organization. We were among the first countries to ratify that treaty.

I was in Geneva in February. They are developing a protocol on smuggled tobacco products, and one of the strongest delegations to that meeting was Canada. Some of the policies that Canada has brought forward have been copied internationally. One of these is the pictures and health warnings that you see on the packs. We're the first ones who did that, and many countries have followed suit.

I think if you could show it as an example.... There are many countries right now that are watching, because they know that Canada is dealing with a tobacco smuggling problem right now. Smuggling is not just specific to Canada; it is a problem internationally, which is why we're negotiating this protocol.

In fact, if you take the initiative of dealing seriously with this issue and protecting the taxation policy, because it's been effective in Canada to lower tobacco consumption, if you ask anyone who was a smoker what their biggest motivation to quit was, they will say either because smoking was banned in the workplace and public venues, or because prices are too high.

That needs to be protected, and Canada needs to lead the way to show the international community that this issue can be dealt with effectively.

Mr. Rob Cunningham: I believe we can solve this; we can win this. There's a responsibility for federal-provincial governments and the American government. We're able to maintain much higher taxes in western Canada with very small levels of contraband in comparison to central Canada.

I'll just note that we have tabled a binder of reference materials for the committee's consideration.

There is one other remedy that we've not talked about—illegal advertising. In tab 8 of the binder there are some examples of illegal advertising by Grand River Enterprises. So there is advertising at point of sale, in violation of Ontario laws and federal laws, and that brings it to the attention of consumers. That is a further remedy: all of the illegal signage could be dealt with.

Hon. Roy Cullen: Thank you.

The Chair: We'll now go over to the government side. Mr. Norlock, please.

• (1700)

Mr. Rick Norlock (Northumberland—Quinte West, CPC): Thank you very much for coming, gentlemen.

I have a quick question for Mr. Damphousse. What percentage of variety stores does your organization represent? I believe there's another organization.... Oh, I'm sorry. This is for Mr. Gadbois.

I'd like to think that you're all on the same page, because if not, we're in deep trouble.

What is it percentage-wise? I know there is a Korean store owners group. I don't know if they're associated with you or not.

Mr. Michel Gadbois: You have to understand that there are three different types of convenience store, if I were to talk about the structure. Obviously, you have the larger groups—Petro-Canada up to Canadian Tire. They are members—big members, thank god for us. You have the smaller chains that might have 10 to 15 stores. Then you have the individual stores, and that's where you'll see, for example, the Korean businessmen's association. There's a Chinese businessmen's association in old Montreal, which has 200 members. There are different groups that unite simply because it's easier for them to work together, especially as many of them are immigrants.

Mr. Rick Norlock: What percentage of all the variety or convenience stores do you represent?

Mr. Michel Gadbois: Do you mean out of all the points of sale?

Mr. Rick Norlock: Yes, a percentage of the Canadian market in that particular area.

Mr. Michel Gadbois: I'd say about 50% or 60%.

Mr. Rick Norlock: Is Couche-Tard part of your group?

Mr. Michel Gadbois: Yes.

Mr. Rick Norlock: I know Mr. Cullen is very concerned. This is one of the issues on this committee that he and I are concerned about. We have an elephant in the room, and the elephant of course is contraband tobacco and its multiple negative causes: everything from organized crime, to the government not getting its fair share of the taxes, to health issues, etc.

It was mentioned that we need to work together on this. The government recently introduced the RCMP contraband tobacco enforcement strategy, the task force, recognizing the machinery and those types of issues. I think it was Mr. Cunningham who held up a carton of cigarettes and said that currently under the law if someone is caught driving around with that in their car they could be arrested and their vehicle seized.

I immediately got a picture in my head of a lower- to middle-income-family person addicted to tobacco. We recognize that it's an

addiction. A surgeon general in the U.S.—I think he was a general in the armed forces—said it's actually more severe than an addiction to heroin, and I suspect very strongly that he's probably right. So we do have good, hardworking Canadians who smoke and sometimes can't afford.... But I got this awful picture of a police car, a person trying to eke out a living—the hardworking Canadian paying taxes and all that—and a tow truck towing away their vehicle. And that's not what I want to see.

I want to see us get to the root of the problem, and to do that we need to look at the socio-economic reasons why people are manufacturing tobacco, whether it be on the reserve or somewhere else. How do we as legislators work with people like you—all the witnesses we've heard—toward that? That's the exact reason why you're here today. It's not to shove the elephant that's in the room into a corner, because we don't have all the answers. God forbid politicians should ever claim to have all the answers, because then we'd be in deep trouble. That's why we have these committees, and that's why you're here.

I guess it's less of a question and more of a statement that I'm making. There's an honest, all-party desire to work together, come together, and listen to Canadians out there. But we had to sort of cram the focus in this committee onto contraband tobacco. We are purposely leaving out the health issues, although we know how strong they are, because it's cancerous. Whether the political elements are on the reserve or in the government here, in the long run this is bad. Our children will suffer. Their health will suffer. They'll become motorcycle gang members. Terrorists will come in because it's a good fast buck—a good way to finance the bad things they're doing. We want to make sure we begin on the road to curbing those bad things from getting worse than they already are now.

So even though Mr. Damphousse and Mr. Gadbois may have different ideas, damn it, you have to work together and help us solve this problem.

Thank you, Mr. Chairman.

• (1705)

Mr. François Damphousse: One comment I can make is that Rob and I, and many others in the health community, have been meeting with many people from many different ministries. We were being told, "It's not us, it's the other ministry", or "It's the other department". We've been thrown so many times, going all around, trying to find people who would take the lead on this issue.

One thing we've said to all of you is that it's not just one minister who is responsible here. It's the Ministry of Justice, it's Health, it's Public Security, and Agriculture. All of these ministries have to get involved.

Just recently we've learned that the RCMP's strategic plan is going to help to set up such a committee to look into this issue through different eyes. This is very important. It's a major achievement, and I think you need to be commended.

As for working together, our motivation in the health community is to protect public health and to reduce the health consequences of tobacco use. You were talking about the cash-strapped individual who is addicted to nicotine. About 80% of smokers don't want to be smokers. In surveys, 80% of them say they want to quit. It's because of the addiction that they keep smoking. In much of the testimony we're getting, especially when they're on their death bed, they will say, "Please do something to make sure that my kids do not smoke, because of what I'm going through".

The interest of the tobacco industry is to maximize their profits. It's to increase their sales. So we don't have any common interests here. The common interest is getting rid of the smuggling, but we'll keep on working to make sure that tobacco consumption keeps going down, because of the public health impact. It's very important that everybody understands this. We sincerely appreciate that, even though your mandate is public security, you are considering the public health aspect of this issue.

Mr. Michel Gadbois: My closing remarks were in the direction that you pointed out. In the coalition that we're putting forward, we committed to accepting our responsibilities. We're going beyond the urgency of the hard-working Canadians who are my retailers, my members. This coalition is a serious movement. You'll see it start to grow in about two weeks.

We want to do it across Canada. We want to use our stores to have people participate. I hope Monsieur Damphousse and Mr. Cunningham will participate. We're open. I'm not hitting anybody in particular. I'm saying that we have to work together. I hope the government will help us move the coalition together. When it's off the ground, I hope that we won't have to carry it and that everybody will be part of it.

That's why I say I hear you, very much. We're already there. We know we need a major social commitment.

The Chair: No one from the Liberal side has indicated that they have more questions.

Ms. Priddy.

Ms. Penny Priddy: There was an article in a national paper this morning about taxes that first nations could place on tobacco, and proceeds of crime that could be put to good use. I wonder if that was anything you'd heard about or wanted to comment on. Did you see the article?

• (1710)

Mr. Rob Cunningham: Yes, I saw it. It's an innovative idea. When a police authority, including an aboriginal police authority, participates in a seizure and there's a fine or there are proceeds of crime that arise from a prosecution, where does that money go? This is an issue that's often raised by different police forces.

If there's an opportunity to put some of these fines or proceeds back into supporting further aboriginal policing, I think that's something to be considered.

Mr. François Damphousse: In the international protocol that's being negotiated by the World Health Organization, they're looking seriously at adopting a measure dealing with the proceeds of crime.

Ms. Penny Priddy: Thank you.

The Chair: Monsieur Ménard.

[*Translation*]

Mr. Serge Ménard: Witnesses have expressed views that differ from your own, it would seem. However, I would like you to provide a further clarification. I questioned them about the usefulness of electronic marking, and they basically said that it was effective in cases involving counterfeit cigarettes, but that those cases only represent 3 per cent of the illegal market. I am wondering whether you share that opinion.

I would also like to talk about vehicle seizure. I checked this in the legislation. It seems that vehicles can be seized, even in cases involving people who bought cigarettes and are transporting them illegally. However, my impression is that once the vehicle has been seized, the owner can regain possession by putting up a bond. So, the seized vehicle is really nothing more than a security deposit. However, I noted that in the United States, vehicle seizures for all kinds of different offences are an effective punishment.

Do you think that, if we were to seize vehicles systematically and publicize the information, there would be fewer people buying cigarettes on the reserves?

Mr. François Damphousse: In terms of electronic marking, I would just like to give you an example. Counterfeiting is a problem that has been observed primarily in the western provinces. However, this carton was manufactured on the Six Nations Reserve by GRE, which has a federal and provincial licence. Although it is subject to the federal excise tax, this product ended up on the contraband market. The provincial tax on this product has not been paid. A system of electronic marking would provide a means of tracing the product, by going back up the chain and determining who supplied the individual and who acted illegally. It would make it possible to carry out investigations. That is currently an important source of the difficulties being experienced in Ontario. No mention was made of that in Monday's testimony. In any case, such a system would help to resolve part of the problem.

At the same time, we would have to be in a position to force manufacturers on the reserves to use the electronic marking system, so that authorities could trace all of their products. Even if we managed to resolve the current problem, how can we be sure that another kind of problem will not present itself later on? Imperial Tobacco is no longer manufacturing cigarettes in Canada; it moved all its manufacturing plants to Mexico and has kept only its head office in Montreal. What guarantee do we have that products coming out of Mexico will not end up on the contraband market through other channels? With a tracing system, we could ensure that this would not happen. While it would not solve all of our problems, it would solve a good many of them. I can assure you that federal and provincial police authorities would be very happy to see such a system implemented.

Mr. Rob Cunningham: In answer to your question about vehicle seizure, we have no specific recommendation to make in that regard, but Mr. Gadbois may want to comment on this from his perspective. I believe the content of provincial laws varies when it comes to tobacco, but I do know that issue has already been raised.

• (1715)

Mr. Michel Gadbois: To be perfectly honest, I have no expertise in that area. Do you mean that anyone buying cigarettes in one of the shacks on the reserves would automatically be liable to having his vehicle seized on the highway?

Mr. Serge Ménard: Yes.

Mr. Michel Gadbois: Well, that would be great, and we believe that would be perfectly normal and justified; however, there are a heck of a lot of smokers out there who are going to hate you. The problem is not with them, but with the people making the cigarettes. That would be my initial reaction.

Mr. Serge Ménard: On the other hand, they will stop going there.

Mr. Michel Gadbois: They will just have the merchandise delivered to their home.

Mr. Serge Ménard: When they hear that their vehicle could be seized.

Mr. Michel Gadbois: All that will do is eliminate some of the small resellers. The distribution network is very well developed. At the level it is at now, it operates inside apartment buildings—indeed, quite openly. Whatever system we decide to use, if people know that being in possession of an illegal product could end up costing them a lot of money, that will certainly help. In terms of whether it's preferable to reduce demand or reduce supply, there is really a problem at both ends. I don't know which method would really work best, so why not use both of them.

Mr. François Damphousse: I would like to refer to comments made by the RCMP in front of the Standing Committee on Health two years ago, as well as I can recall them. It had been suggested that measures be taken particularly with respect to smokers who buy illegal cigarettes. The RCMP pointed out at the time that, because of resource issues, it would be impossible to catch all the people buying these cigarettes. Catching one person would certainly have a deterrent effect, but then we would simply be moving the problem somewhere else. The real problem is not the smoker, but the people manufacturing these illegal cigarettes.

As Mr. Norlock pointed out earlier, these people are dealing with an addiction. That is why we would like to see strategies that focus on the source of the problem, and not the individual.

[English]

The Chair: Thank you.

The last person on my list is Mr. Goldring.

Mr. Peter Goldring: Thank you, Mr. Chairman.

On the distribution angle, reading through the material here—and that's why I kind of alluded to it with your association and 31,000 stores—it takes an awfully large distribution to be able to distribute the amount of product being made. Rather than looking at the distribution or the retailing of it, I have a question on it. If this were happening in any other part of Canada, where the manufacturing was

done in Canada, it would be shut down in a heartbeat. The real problem seems to be tracking the product, the tobacco, into the U.S. territory and back again as a finished product. So the problem really seems to be the porous border.

If you have a porous border, how much emphasis is being put on the United States cleaning up the border, or is there anything we can do on a reserve that has a border down the middle of it? Is the real difficulty here the geography of the situation? You really have an identifiable, or uncontainable, porous border down the middle of the reserve. Is that what's being taken advantage of?

Mr. François Damphousse: There have been some examples where the RCMP has shut down some illicit manufacturing. For example, in Quebec they cracked down on that right away. They were not just cells of illegal tobacco; it was manufacturing.

I think the Akwesasne situation is very regrettable. It's not being condoned. A lot of people on the reserves are really against what's going on. There's organized crime taking advantage on both sides, because it's being distributed out of there through Canada. It's very unfortunate that this situation is going on, which is why a plan to deal with this issue has to be thought through.

We should also look at the people who are providing the raw materials to those reserves. GRE made that comment. They said you have to take a look at the people who are providing it. They're as guilty as those who manufacture on the reserves. We shut down the manufacturing in Quebec—I think it was near Repentigny or Sorel. Why can't we address this issue by shutting down the people who are providing these products? We would be addressing it outside the reserve.

• (1720)

Mr. Peter Goldring: But the secondary or maybe primary crime is smuggling illegal items back across Canada's border.

Mr. François Damphousse: But you have to cut off that source before it comes over the reserve into Canada.

Mr. Peter Goldring: That's not necessarily so, because you're having difficulty identifying where the tobacco is coming from—foreign tobacco, Ontario tobacco, or American tobacco. The paper products can come from anywhere around the world. The real common denominator is the illegal product—the cigarettes coming back across that border, and what can be done at that border to stop it.

Mr. Rob Cunningham: It's urgent that the Canadian government, with the United States government, diplomatically find a solution and insist that this is a problem for both our countries and we have to find an end to it.

Mr. Peter Goldring: We have to get into it with all these other things. It's an illegal product crossing the border into Canada.

Mr. Rob Cunningham: Yes. It needs to come to an end.

The Chair: Mr. St. Amand, you indicated you have another question.

Mr. Lloyd St. Amand: Thank you for your indulgence, Mr. Chair.

Just picking up on what Mr. Goldring was saying, 90% of it—or the vast amount in any event—is being manufactured illegally in the United States with tobacco that is perhaps from Canada, North Carolina, Brazil, or whatever. What are the mechanics of it then being smuggled into Canada? Is the large majority smuggled across the St. Lawrence River?

Mr. Rob Cunningham: That's correct. It's by boat, or across the ice in the winter. There are some weeks, before and after the winter, when you can't do it either way and you go by bridge. But basically, almost all of the year it crosses the St. Lawrence River either by boat or over the ice.

Mr. Lloyd St. Amand: Then it is put into trucks. On either side of the border, at some point, it's in trucks or put onto boats, trailers, and cars.

Mr. Rob Cunningham: That's correct, and it is not intercepted.

Mr. Lloyd St. Amand: And it is not intercepted.

Mr. François Damphousse: You have to take a look at the seizures from the RCMP. They've increased dramatically, and the Akwesasne police force has been cooperating tremendously with the RCMP on that issue.

Mr. Lloyd St. Amand: I know that there is an attempt to intercept it, and there are some successes, but clearly, pounds and pounds and pounds are not being detected.

Mr. Rob Cunningham: Only a very tiny percentage is seized. That's correct.

The Chair: Is everybody done?

I'd like to thank our witnesses very much. You've given us a lot of information to try to digest. I appreciate you coming before the committee.

The meeting is adjourned.

Published under the authority of the Speaker of the House of Commons

Publié en conformité de l'autorité du Président de la Chambre des communes

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