

Submission to the Standing Committee on Finance

Budget 2012 Consultations

Executive Summary

The National Coalition Against Contraband Tobacco (NCACT) is an organization dedicated to fighting the spread of illegal cigarettes in Canada.

This submission makes three recommendations:

Recommendation 1: Create a Canada-Ontario-Quebec government taskforce on illegal cigarettes

Recommendation 2: Expand the scope of existing anti-contraband tobacco enforcement taskforces

Recommendation 3: Target the supply of illegal tobacco by inspecting and shutting down unlicensed cigarette factories and enforce Health Canada regulations in smoke shacks

About the National Coalition Against Contraband Tobacco

Founded by the Canadian Convenience Stores Association (CCSA), the Coalition is bringing together a wide variety of people and businesses all dedicated to fighting this growing problem.

The Coalition has the mission to raise public and government awareness of the seriousness of the problem posed by contraband cigarettes and lobbying provincial and federal governments to take action.

The members of the NCACT include: Canadian Convenience Stores Association (CCSA); Retail Council of Canada; Canadian Taxpayers Federation; Canadian Tobacco Manufacturers Council; National Convenience Stores Distributors Association (NACDA); Canadian Chamber of Commerce; Frontier Duty Free Association; Flue-Cured Tobacco Growers; Fédération des Chambres de Commerce du Québec (FCCQ); Conseil du Patronat du Québec (CPQ); l'Association des marchands dépanneurs et épiciers du Québec (AMDEQ); Toronto Crime Stoppers; National Citizen's coalition; and The Customs & Immigration Union (CIU).

Contraband Tobacco in Canada:

Contraband tobacco refers to cigarettes and other products that do not comply with Canada's tobacco regulations - specifically those regarding importation, stamping, manufacturing, distribution and taxation. It is manufactured in illegal factories that straddle the Canada-US border, with more than 50 illegal manufacturing sites operating in Canada.

Contraband tobacco is distributed in a number of fashions. It is readily available at more than 300 smoke shacks that operate outside of government regulation. It is also sold through a vast network of smugglers in communities across Canada. They bring these cigarettes directly to the doorsteps of consumers, or act as street vendors selling cigarettes out of the trunks of their cars.

A carton of illegal cigarettes can cost as much as \$70 less than the legal product, and carries none of the regulatory display or packaging requirements. Indeed, illegal cigarettes are often sold to consumers directly in clear, re-sealable plastic bags. This price disparity, paired with the fact that contraband dealers don't check ID, has made illegal cigarettes a prime source for youth smoking. In fact, a recent study by the Centre for Addiction and Mental Health indicated that 43% of cigarettes smoked by Ontario high school students were illegal, flagging contraband availability as a reason why youth smoking rates in the province have remained relatively high¹. This corresponds with independent scientific studies conducted for the NCACT that confirm a high prevalence of contraband cigarette use amongst Canadian youth.²

Contraband tobacco's cost to consumers may be low, but it has proven to be extremely lucrative for the criminals that make and sell it. The RCMP estimates that there are more than 175 criminal gangs that use illegal cigarettes as a cash cow to finance their other illegal activities, including hard drugs, guns, and human smuggling.

How Contraband Tobacco Affects the Federal Budget

It should be an important government objective to reduce the prevalence and availability of illegal cigarettes, as its social costs, as outlined above, remain very high. However, the strength of the contraband tobacco market does also bring serious financial impacts to the government of Canada.

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http://www.camh.net/News_events/News_releases_and_media_advisories_and_backgrounders/contraband_tobacco_callahan_2010.html

² See, for example, "Youth Contraband Tobacco Study, 2009" available online at:

<http://www.stopcontrabandtobacco.ca/pdf/buttstudy2009.pdf>

The Standing Committee on Finance has outlined a number of issues of interest for this budget cycle, including how government can ensure a relatively low rate of taxation and how to achieve a balanced budget. Central to achieving both is ensuring that government maximizes the collection of anticipated tax revenues.

The trade in contraband cigarettes is working precisely against this objective. Canada loses as much as 2.4 billion dollars a year in lost tax revenue - 1.1 billion from the federal government - because of the contraband tobacco market. This is not just a question of government allowing money to go uncollected. As outlined above, every dollar the government loses to the illegal market represents money in the pockets of some of society's least desirable elements. Stopping this flow is a worthwhile objective in and of itself, recouping lost tax revenues is a bonus.

Illegal tobacco's prominence also hurts small businesses that play by the rules, including convenience stores and other small retailers. Contraband cigarette's low price and easy availability deter sales from these businesses, often costing a substantial reduction in revenue. This limits their ability to hire additional employees and, in some cases, can even cause them to close. The Standing Committee on Finance is interested in the creation of stable quality jobs, which is a worthwhile objective, but it must begin with efforts to protect those jobs created by existing small businesses. Ensuring that existing small businesses do not face unreasonable competition from a parallel black market is central to this. We must make sure that we protect those businesses that play by the rules and punish the unscrupulous ones that do not.

Solutions

Much remains to be done to reduce the prevalence of illegal tobacco in Canada. The National Coalition Against Contraband Tobacco suggests three courses of action to combat illegal cigarettes in Canada, which focus on reducing the supply and demand for illegal cigarettes.

Recommendation 1: Create a Canada-Ontario-Quebec government taskforce on illegal cigarettes

Illegal tobacco enforcement is important, but cannot solve the problem alone. At present, the RCMP estimates that only 5-6% of the \$13 billion dollar contraband tobacco trade is being stopped. The illegal cigarette problem is one that crosses provincial and departmental lines, and it is important that our approach and strategy reflect the scope of the challenge.

To do so, the governments of Canada, Ontario, and Quebec should strike an interdepartmental taskforce that coordinates response to illegal tobacco. Such a taskforce will allow more effective communications between jurisdictions, allow for greater information sharing, and allow for a more effective response to contraband. It is the natural role of the federal government to take a leadership role in this regard, especially as the illegal market has given organized crime a free reign in First Nations territories. Remember: the criminals that run the illegal tobacco trade operate without regard for borders. We should not allow our response to be hampered by them.

Given the impact that illegal cigarettes have in First Nations communities, it is also essential that such a taskforce actively reach out to First Nations leadership. A successful response to the challenge of illegal cigarettes must engage all stakeholders and be built on a collaborative solution.

Recommendation 2: Expand the scope of existing anti-contraband tobacco enforcement taskforces

The Cornwall Regional Taskforce has demonstrated that collaboration between the federal, Ontario and Quebec governments can yield tremendous results. While this taskforce is limited in its geographic reach, the contraband problem is not. We should build on this success with the aim to expand and create a broader taskforce of law enforcement officials from Canada, Ontario, Quebec, and the United States. Stiffening penalties and broadening seizure powers for police will make enforcement efforts even more effective.

The government has made platform commitments for a new anti-contraband RCMP task force of 50 officers. Such resources, especially if tied to greater inter-jurisdictional coordination, are an important step towards addressing this problem and should be taken immediately.

Recommendation 3: Target the supply of illegal tobacco by inspecting and shutting down unlicensed cigarette factories and enforce Health Canada regulations in smoke shacks

Law enforcement cannot succeed alone in fighting contraband tobacco. It is just as important to reduce the supply of illegal cigarettes by targeting supply and distribution chains. Currently there are more than 50 illegal manufacturing sites operating in Canada. These sites should be inspected and, when not in compliance with regulations, should be shut down. To be transparent with the public, a full list of licensed manufacturers should be published. Government should also consider increasing licensing requirements for non-tobacco cigarette manufacturing materials to further discourage illegal manufacturing.

Similarly, there are at least 300 smoke shacks operating within Canada, usually located within a short drive of major Canadian cities. They are a prime source for contraband tobacco, and operate without regard for Canada's tobacco control regulations, including pricing and checking for I.D. Smoke shacks should be inspected regularly to ensure that they are complying with Health Canada and other tobacco regulations. When they are not, they should be shut down.