

Standing Committee on Finance (FINA)

Pre-budget consultations 2012

Rothmans, Benson & Hedges Inc.

Responses

1. Economic Recovery and Growth

Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?

The government has made many steps over the course of the global economic crisis to help create a business friendly environment and spur economic growth in Canada. Unfortunately, we still see the negative impact from the illegal sale of contraband tobacco. Economically the impact of contraband tobacco negatively impacts legitimate businesses (retailers, distributors and manufacturers) and particularly hurts small businesses that depend on legally selling tobacco. The Canadian Convenience Store Association (CCSA) estimates that in 2011 alone, 350 convenience stores were forced out of business mainly in Ontario and Québec, largely due to the high prevalence of illegal sales of contraband. Furthermore, contraband tobacco is costing government an estimated \$2.1 billion in lost tax revenue with over \$1 billion lost to the federal government alone. Not only is the contraband tobacco industry taking revenue from small businesses and government, the RCMP testified in 2010 at the House of Commons Standing Committee on Public Safety and National Security that more than 175 organized crime groups are known to be involved in the sale of contraband tobacco, including violent gangs like the Hells Angels. According to the RCMP many of these organized crime groups are also involved in drug and/or weapons trafficking. The RCMP also fears that the contraband tobacco trade in Canada is being used to fund terrorist activities. In the bigger economic picture the prevalence of these organized crime groups could be a significant border concern that could impact trade at the border with Canada's largest trading partner, the USA. We would ask the government to move quickly and implement the commitment made in the last election to establish a new RCMP Anti-Contraband Task Force of fifty officers and implement mandatory jail time for repeat offenders by this same date. Not only will this proposed initiative help return the illegal sale of cigarettes and strengthen small retailers, it will have a positive fiscal impact and help the government tackle the current federal deficit.

2. Job Creation

As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?

The illegal sale of contraband tobacco continues to undermine efforts of legitimate businesses involved in the retail, distribution and manufacturing of legal tobacco products. In particular Canada's convenience stores provide more than \$33 billion to the Canadian economy every year, buying more than \$26 billion in goods and services annually. Convenience stores in Canada serve an estimated 10 million customers a day in more than 25,000 retail locations across the country. Not only do they provide employment to 185,000 people, they are a true embodiment of the Canadian entrepreneurial spirit, and provide jobs for many new Canadians. Illegal contraband tobacco hurts these small businesses that play by the rules, and are at the heart of every local community in Canada. Contraband is costing communities across Canada jobs and undermines tobacco control efforts made by the government. Since there are no controls in place on the sale of contraband tobacco, it is sold at prices

that legitimate retailers cannot compete with. A baggie of 200 contraband cigarettes can cost up to \$70 less than the same number of legally sold cigarettes. In addition to the cost difference, legitimate businesses work within a regulatory framework designed to prevent young people from starting to smoke, while the criminal organizations that sell contraband operate outside the law and have no age restrictions for the sale of their product. Small business is the engine of the Canadian economy. It is impossible, however, for legitimate small businesses that operate in a heavily regulated environment to compete with criminal organizations that don't follow the rules. The government needs to protect legitimate jobs and the communities that they operate in by targeting the criminals that are selling contraband with increased enforcement and penalties, as promised in the most recent election.

3. Demographic Change

What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?

4. Productivity

With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?

5. Other Challenges

With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?

Our comments thus far focus on the need to protect small business, and deliver increased tax revenue to government by implementing measures against contraband tobacco. With respect to enforcement, the government needs to also look at other issues related to the contraband trade. With respect to the government's tobacco control initiatives, we recognize that youth smoking is a serious problem. Unfortunately, many of the government's initiatives in this regard are undermined by the flow of contraband tobacco into the hands of Canada's youth. For instance, contraband cigarettes are often sold in clear baggies, with no designated health warning and they are sold for a fraction of the cost of the legitimate product. In regards to public safety, the RCMP has identified over 175 criminal organizations that use contraband cigarettes to fund and sell other illegal activities, like guns and hard drugs and even human smuggling. The proposed re-location of the Cornwall border to Maseena, New York from its present location on Cornwall Island, as part of the Beyond the Border initiative, will increase the risk of contraband tobacco trafficking through this point of entry. Since the border was relocated in 2009, the ability to monitor and prevent the movement of contraband tobacco, illegal arms, drugs and other products has significantly improved. With the border's proposed movement, security at the present point of entry will lapse, resulting in increased criminal activity (not only contraband tobacco traffic) through this area. In light of the Canadian Government's recent passing of The Integrated Cross Border Law Enforcement Operations Act, we would encourage the government to take significant steps to addressing with this security risk. In addition to enforcement measures, the government should strengthen licensing requirements to include critical non-tobacco materials used in

making tobacco products. Cigarettes cannot be made without certain critical non-tobacco materials including cigarette paper, cigarette filters, acetate tow and cigarette tipping paper. Restricting the availability of these materials would make the manufacturing of contraband tobacco products significantly more difficult.