

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

Canadian Coalition for Action on Tobacco

August 2014

Executive Summary

The Canadian Coalition for Action on Tobacco (CCAT), comprised of leading health organizations in Canada, commends the federal government for the inflation-adjustment tobacco tax increase in Budget 2014. To build on Budget 2014, it is recommended that the federal government implement the following measures.

Federal Tobacco Control Strategy

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

Measures related to tobacco taxation

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

Contraband Prevention

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

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

Introduction

There is a pressing need to reduce the devastating burden of the tobacco epidemic. Tobacco use is the most significant preventable cause of disease and death in Canada, causing 37,000 Canadian deaths each year. Smoking rates in Canada, including among youth, remain unacceptably high. The 2013 Canadian Community Health Survey found a current smoking prevalence of 19% for Canadians aged 12+, representing 5.7 million Canadians.

The recommendations in this submission should be implemented as part of a broader comprehensive federal government tobacco control strategy that should include plain and standardized packaging; enhanced picture warnings on packages of all tobacco products (not just cigarettes and little cigars); banning flavours in all tobacco products; regulation of electronic cigarettes; and numerous other tobacco control initiatives. Such measures would build on Bill C-32 (print advertising ban; restrictions on flavoured products, 2009) and on new, larger picture health warnings for cigarette packages (2012).

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

Tobacco tax increase in Budget 2014 deserves praise

The federal government should be commended for the tobacco tax increase in Budget 2014. This measure implemented a much needed inflation adjustment given that prior to Budget 2014 federal cigarette taxes had not had a net increase since 2002. The 2014 federal tobacco tax increase will decrease smoking, especially among youth, and will provide substantial increased revenue for the federal government. Health organizations reiterate support for this important public health and public revenue measure as evidence-based best practice.

Enhance Federal Tobacco Control Strategy

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

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

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

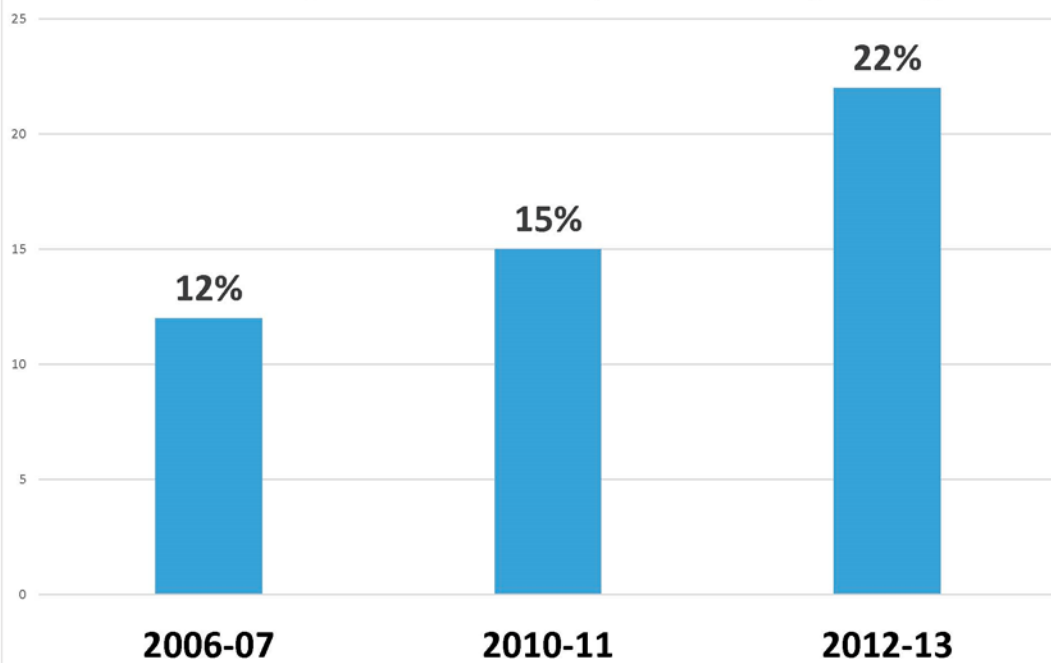
Health Canada's annual tobacco control budget (\$38 million, \$1.07 per capita) is much smaller than the comparable US federal government annual tobacco control budget (exceeding US\$600 million (C\$655 million), or US\$1.88 (C\$2.05) per capita).

Strengthen measures related to tobacco taxation

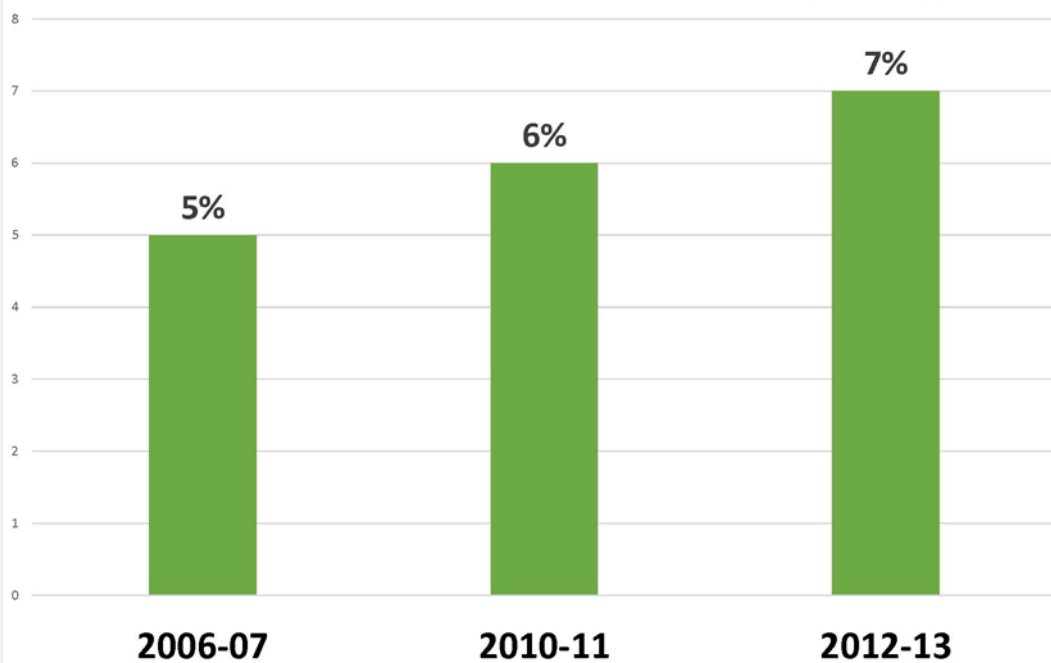
Recommendation 2: Tax herbal non-tobacco products for water pipe smoking at the same tax rate as water pipe tobacco.

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

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



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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Contraband Prevention

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

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

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

Recommendation 7(a)

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

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

Recommendation 7(b)

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

Contacts

For further information, please contact:

- Lorraine Fry, Chair, Canadian Coalition for Action on Tobacco, c/o 720 Spadina Avenue, Suite 221, Toronto, Ontario M5S 2T9, lfry@nsra-adnf.ca, 416-928-2900.

Annex 1

International Rankings of Lowest Duty-Free Import Allowances for Cigarettes³

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

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

Notes

1. Applies to travellers by land or sea, but not by air.
2. Applies to travelers by land, sea and air.
3. Source: Canadian Cancer Society, "Duty-free Tobacco Sales and Import Allowances: International Overview" July 30, 2014.