

NATIONAL  
COALITION  
AGAINST  
**CONTRABAND**  
TOBACCO

Stopping the sale of illegal cigarettes in Canada



LA COALITION  
NATIONALE  
CONTRE  
LE TABAC DE  
**CONTREBANDE**

Enrayer la vente de cigarettes illégales au Canada

**Submission to the House of Commons Standing  
Committee on Public Safety and National Security**

**Study on Gun Control, Illegal Arms Trafficking and the  
Increase in Gun Crimes Committed by Members of  
Street Gangs**

**March 2022**

## **Recommendations**

### **Recommendation 1**

That, as a key component of tackling gun crime and illicit gun trafficking, the Government of Canada work in partnership with the Government of Ontario to actively combat illicit tobacco production and sales in the province. Ontario currently has a staggeringly high rate of consumption of illicit tobacco products and is where the federal government's tobacco control measures are the most undermined. As Ontario is a major source province of contraband tobacco, a special emphasis should be placed on identifying and shuttering contraband production facilities and reducing the amount of contraband tobacco products being shipped nationwide.

### **Recommendation 2**

That the Government of Canada work with provincial governments across Canada by providing funding to assist provincial law enforcement and regulatory agencies to combat illicit tobacco distribution. Currently, provinces are being flooded with illicit product from manufacturing provinces such as Ontario and Quebec. With the continuation of federal and provincial tax increases, consumers have sought and will seek a more affordable alternative, leading to increases in illicit consumption while undermining both federal and provincial control measures and have a significant impact on tax revenues within the provinces and the country.

## Introduction

From British Columbia, to Ontario, to Nova Scotia, Canada continues to have one of the largest contraband tobacco issues in the world. According to Criminal Intelligence Service Canada, contraband tobacco and cannabis means that over \$12 billion in annual costs are absorbed by the federal and provincial governments for healthcare, lost productivity, criminal justice, and other direct costs. In Ontario, one in three cigarettes sold continue to be illegal, account for a combined federal-provincial excise tax loss of over \$1 billion annually.

The organized crime elements involved in the contraband tobacco trade are an even larger concern. The Royal Canadian Mounted Police (RCMP) estimate there to be approximately 175 organized crime groups involved in the illicit tobacco trade, who make millions of dollars daily from contraband tobacco. They use these proceeds of crime to fund other illicit activities, such as the sale and distribution of guns, cocaine, illegal, unregulated, cannabis and fentanyl as well as human trafficking. Seizures of illegal cigarettes in 2022 alone in Prince Edward Island, New Brunswick, and Alberta have all been alongside drugs and firearms (picture examples below). This is consistent with years past, and is part of a trend, where the seizure of contraband tobacco being accompanied by illegal cannabis, cocaine, fentanyl, and illegal firearms.

Indeed, since 2014, Canada has been the epicentre of the largest contraband tobacco smuggling operations in the world. From Project LYCOSE<sup>1</sup> to Project MYGALE<sup>2</sup>, to Project CENDRIER<sup>3</sup> and most recently Project CAIRNES<sup>4</sup> all have been coordinated and run by organized crime syndicates involved in the trafficking of illegal firearms, contraband tobacco, drugs, and money laundering. In two of these projects, MYGALE and CAIRNES, the ringleaders had direct ties to organized crime and were violently gunned down. This should serve as a startling reminder of how the tentacles of contraband tobacco traffickers extend to violent crime, quantified by the number of major arrests, and seizures of various commodities, conducted law enforcement across Canada in recent years.

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<sup>1</sup> <https://www.aptnnews.ca/national-news/weapons-found-home-akwesasne-man-strip-club-owner-caught-sq-tobacco-operation/>

<sup>2</sup> <https://globalnews.ca/news/2607530/quebec-u-s-police-rcmp-bust-drug-illegal-tobacco-ring-with-ties-to-bikers-reserves/>

<sup>3</sup> <https://www.rcmp-grc.gc.ca/en/news/2017/project-cendrier-four-subjects-arrested-drug-trafficking-charges>

<sup>4</sup> <https://www.yorkregion.com/news-story/10020899-16-charged-in-opp-led-probe-into-trafficking-of-cannabis-fentanyl-cocaine-contraband-tobacco/>



*Seizure in Saint John, New Brunswick on February 15, 2022.*



*Seizure in Lac La Biche, Alberta on February 2, 2022.*

While Quebec has made the investments in combatting contraband tobacco, Ontario continues to lag behind. The situation has worsened recently due to the heavy tobacco tax increases included in the federal government's Budget 2021. Without Ontario taking action against contraband tobacco, and with federal taxation policies helping drive smokers to the illicit tobacco market, criminal gangs continue to

profit to the tune of millions of dollars each day. The National Coalition Against Contraband Tobacco (NCACT) contends that the following recommendations, if implemented, would help to more effectively combat organized crime groups and protect Canadians from an unregulated, illegal, product, sales of which are helping fuel gun crime and illegal gun trafficking, while preventing the loss of millions of dollars in revenue to federal and provincial treasuries.

### **Stopping the Flow of Contraband Tobacco**

While the manufacturing of illegal cigarettes takes place in both Ontario and Quebec, it is largely centred in Ontario where illicit factories can churn out 10,000 cigarettes per minute through some of the most sophisticated equipment available. The contraband tobacco market has become efficient and organized due to a lack of robust, concerted, action taken against it by both federal and some provincial governments. However, Quebec continues to lead the way in contraband tobacco enforcement and provides a model that other provinces should consider replicating.

Prior to 2009, Quebec had the same contraband tobacco issue as Ontario, where one in three cigarettes sold were illegal. In 2009, in order to more effectively counter tobacco smuggling, the Government of Quebec passed *Bill 59: An Act to amend the Tobacco Tax Act* and other legislative provisions<sup>5</sup>. As a result of Bill 59, Quebec successfully reduced its rate of contraband tobacco from approximately 33% to 12% within two years<sup>6</sup> allowing the government to realize millions of dollars of otherwise lost revenue within a two-year timespan.

Bill 59, the provisions of which remain in force today, took three specific actions:

1. It allowed all police officers in Quebec to conduct full contraband tobacco investigations;
2. It created *Accès Tabac*, a program to fund ongoing contraband tobacco investigations; and,
3. It created a 54-member Contraband Tobacco Enforcement Team at the *Sûreté du Québec*.

Quebec's 2020 budget documented that the government spent \$14.4 million on its contraband tobacco program and yielded a return of \$206 million<sup>7</sup>; a return of over \$14 for every dollar invested by the Government of Quebec. The Quebec model is a proven path forward for Ontario, and other provinces and territories, wishing to take effective action against contraband tobacco.

It should be noted that, in Ontario, as a result of the public health measures for COVID that have locked down First Nations reservations, primarily in the southwestern part of the province, contraband tobacco rates have decreased due to consumers being unable to access the illicit product. That said, while the COVID-19 pandemic has temporarily transformed the contraband tobacco market, organized crime groups continue to operate illicit trade routes, distributing millions of illegal cigarettes across Ontario and Canada, with financial proceeds going towards other criminal activities including gun trafficking and gun crime. .

The need for the federal and Ontario governments to take coordinated action is critical. Indeed, Finance Canada and the Ontario Ministry of Finance should use the past 24 months as a case study for what revenue from excise taxes might look like if concerted action against contraband tobacco was taken.

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<sup>5</sup> <http://www.assnat.qc.ca/en/travaux-parlementaires/projets-loi/projet-loi-59-39-1.html>

<sup>6</sup> [http://www.budget.finances.gouv.qc.ca/budget/2019-2020/en/documents/AdditionalInfo\\_1920.pdf](http://www.budget.finances.gouv.qc.ca/budget/2019-2020/en/documents/AdditionalInfo_1920.pdf)

<sup>7</sup> [http://www.budget.finances.gouv.qc.ca/budget/2020-2021/en/documents/Budget2021\\_AdditionalInfo.pdf](http://www.budget.finances.gouv.qc.ca/budget/2020-2021/en/documents/Budget2021_AdditionalInfo.pdf)

The risk for both levels of government is during the post-COVID recovery phase. As millions of Canadians find themselves unemployed and millions more see a reduction in their overall buying power, there is a large risk that the contraband tobacco market will see an upsurge once public health measures are eased and aforementioned First Nations reservations end their lockdowns. Smokers, who may be unwilling to pay a higher cost for legal cigarettes, are likely to begin smoking illegal cigarettes. This will further undermine tobacco control measures, further increase the loss of excise taxes at a time when federal, provincial and territorial governments are in need of revenue, and fuel gun trafficking and violent gun crime nationwide.

Through Canada's Tobacco Strategy, the Government of Canada has set itself an ambitious goal of driving down smoking rates to less than 5% by 2035. About 15%<sup>8</sup> of the population continue to smoke in Canada, with 33% in Ontario smoking illegal cigarettes. While we commend the government's plan, the goals set out in the strategy cannot be achieved without acting against contraband tobacco. The illicit market ignores all tobacco control measures including selling to minors, plain packaging regulations and health warnings. Without targeted, aggressive, action against the contraband tobacco market the federal government will be hard pressed to get close to 5% by 2035.

Given that Ontario is the epicentre of the illegal tobacco trade there is a pressing need for a federal-provincial partnership to tackle what is a national security issue..

### **Recommendation**

That, as a key component of tackling gun crime and illicit gun trafficking, the Government of Canada work in partnership with the Government of Ontario to actively combat illicit tobacco production and sales in the province. Ontario currently has a staggeringly high rate of consumption of illicit tobacco products and is where the federal government's tobacco control measures are the most undermined. As Ontario is a major source province of contraband tobacco, a special emphasis should be placed on identifying and shuttering contraband production facilities and reducing the amount of contraband tobacco products being shipped nationwide.

### **Supporting the Provinces**

As previously stated, Quebec has done an excellent job of equipping and assisting their provincial law enforcement agencies with the tools and funding required to combat the illicit tobacco industry. Their success in combating illicit tobacco supply and distribution has not only reduced illicit consumption rates by more than half but has also resulted in the recovery of millions of dollars in lost tax revenue.

As part of the Federal Tobacco Control Strategy, the federal government should encourage and support models like the one Quebec has implemented. Unfortunately, not all provinces are on the same page, as was the case in New Brunswick in 2020, when a decision to reallocate funding and resources resulted in the disbandment of the province's provincial tobacco enforcement team. Fortunately, the province has re-introduced a new contraband tobacco enforcement team, but the majority of provinces continue to lag behind.

As COVID regulations expire and taxes on legal products continue to rise, provinces across the country are seeing an increase in illicit consumption rates. British Columbia, Manitoba, Nova Scotia, and

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<sup>8</sup> <https://uwaterloo.ca/tobacco-use-canada/adult-tobacco-use/smoking-canada/current-smoking-prevalence>



Newfoundland and Labrador have some of the highest tobacco taxation rates in Canada, ranging from \$140 to \$155 on average for a carton (200 sticks) of legitimate product. When contraband is available for about a third of the price (\$45-\$55), it's easy to see why the illicit market is growing and allowing organized crime to tap into a financial force multiplier with little associated risk or deterrence.

**According to open-source seizure data compiled in 2021, up to 70% of illicit tobacco seizures within provinces were accompanied by drug and/or gun seizures.** These connections highlight organized crime groups' use of contraband cigarettes to fund alternative activities that directly affect Canadians' safety and security, such as firearms, drug, and human trafficking.

### **Recommendation**

That the Government of Canada work with provincial governments across Canada by providing funding to assist provincial law enforcement and regulatory agencies to combat illicit tobacco distribution. Currently, provinces are being flooded with illicit product from manufacturing provinces such as Ontario and Quebec. With the continuation of federal and provincial tax increases, consumers have sought and will seek a more affordable alternative, leading to increases in illicit consumption while undermining both federal and provincial control measures and have a significant impact on tax revenues within the provinces and the country.

### **About**

The National Coalition Against Contraband Tobacco is a Canadian advocacy group formed with the participation of businesses, law and order organizations and individuals concerned about the growing danger of contraband cigarettes. Our members share the goals of working together to educate people and urge government to take quick action to stop this growing threat. To learn more, please visit [www.stopcontrabandtobacco.ca](http://www.stopcontrabandtobacco.ca).

## Appendix

### Legal Carton of Cigarette Prices by Province – February 2022

	Average Pre-Tax Price	Federal Excise duty	Provincial Excise	PST/HST	Federal GST 5%	Total Tobacco Taxes	Total Retail Price
<i>British Columbia</i>	\$40.00	\$29.09	\$65.00	No PST	\$6.70	\$100.79	<b>\$140.79</b>
<i>Alberta</i>	\$40.00	\$29.09	\$55.00	No PST	\$6.20	\$90.29	<b>\$130.29</b>
<i>Saskatchewan</i>	\$40.00	\$29.09	\$54.00	\$7.39	\$6.15	\$96.63	<b>\$136.63</b>
<i>Manitoba</i>	\$40.00	\$29.09	\$60.00	\$9.04	\$6.45	\$104.58	<b>\$144.58</b>
<i>Ontario</i>	\$40.00	\$29.09	\$36.95	\$13.79	See HST	\$79.83	<b>\$119.83</b>
<i>Quebec</i>	\$40.00	\$29.09	\$29.80	No PST	\$4.94	\$63.83	<b>\$103.83</b>
<i>New Brunswick</i>	\$40.00	\$29.09	\$51.04	\$18.02	See HST	\$98.15	<b>\$138.15</b>
<i>Prince Edward Island</i>	\$40.00	\$29.09	\$55.04	\$18.62	See HST	\$102.75	<b>\$142.75</b>
<i>Nova Scotia</i>	\$40.00	\$29.09	\$59.04	\$19.22	See HST	\$107.35	<b>\$147.35</b>
<i>Newfoundland</i>	\$40.00	\$29.09	\$65.00	\$20.11	See HST	\$114.20	<b>\$154.20</b>

### Contraband Carton of Cigarette Prices by Province

	Average Pre-Tax Price	Federal Excise duty	Provincial Excise	PST/HST	Federal GST 5%	Total Tobacco Taxes	Total Retail Price
<i>Ontario</i>	\$20.00	\$0	\$0	\$0	\$0	\$0	<b>\$20.00</b>
<i>Quebec</i>	\$25.00	\$0	\$0	\$0	\$0	\$0	<b>\$25.00</b>
<i>Rest of Canada</i>	\$45.00	\$0	\$0	\$0	\$0	\$0	<b>\$45.00</b>