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December 6, 2007

Rt. Hon. Stephen Harper, MP
Prime Minister of Canada
House of Commons
Ottawa ON K1A 0A6

SUBJECT: CONTRABAND CIGARETTES

Tobacco is the leading cause of preventable death in Canada and contraband cigarettes are exacerbating this problem. You can help change that. We kindly request that you reply to this letter to inform us what steps you and your government are taking to stop illegal tobacco manufacturing.

There is a belief that increased taxes contribute to increased smuggling. This is a myth and is definitely not true. Tobacco smuggling is more prevalent in Ontario and Quebec and yet, taxes are higher in other provinces such as BC, Alberta and Newfoundland. The challenge to contraband cigarettes and smuggling is caused by a failure to properly control the illicit supply of tobacco. Effective measures to stem the problem from becoming greater require political will and dedicated resources. Doing it quickly and doing it now will help stop the problem before it become even more of a challenge.

Of note, the Canadian Coalition for Action on Tobacco made a submission to the Federal Minister of Finance in 2004 which acknowledged that tobacco taxation is a public health strategy that is now an accepted practice in Canada. The report further indicates that during the last century, tobacco taxes remained relatively low compared to other consumer products and real prices for tobacco products actually declined. This trend changed when economic studies demonstrated that taxing tobacco products can be used both as a fiscal as well as a public health policy lever. For example, in a 2002 report by Gruber, Sen and Stabile on the price elasticity of demand in the Canadian market for tobacco¹, they demonstrate that for each 10% increase in price leads to a 4.5 % decrease in tobacco consumption in the general population.

As provincial and the federal government increased tobacco taxes in the early 1990s, smuggled cigarettes became an increasing problem especially in Central Canada. To deal with this problem, the federal government and the provinces of Ontario, Quebec, PEI, Nova Scotia and New Brunswick slashed their taxes in 1994. Most other provinces kept their taxes higher than these other provinces.

Although taxation has gradually increased since 1994, contraband cigarettes are making their way back into the marketplace and becoming a problem yet again. According to the 2005 Annual Report on Organized Crime in Canada prepared by Criminal Intelligence Service Canada, illegal cigarettes are now coming from different sources:

- Illicit manufacturing operations located on some aboriginal reserves in Canada and the U.S., such as the Akwesasne/St.Regis reserve;
- Canadian brand-name cigarettes shipped to aboriginal reserves and diverted back to the domestic market to be sold without all applicable taxes;
- Thefts of cigarette truck shipments;
- Illegal importation of counterfeit cigarettes (copies of Canadian cigarette brands) made in countries such as China;
- Illicit manufacturing operations outside reserves.



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Of all these sources, one stands out. According to public statements made by the Royal Canadian Mounted Police (RCMP), “90 per cent of the contraband product is coming into Canada from cigarette factories on the U.S. side of Akwesasne [St.Regis].”²

One challenge is that the Akwesasne/St. Regis Reserve straddles the Canada/U.S. Border and as such, it is relatively easy for the free flow of goods from one side of the boarder to the other. Cigarettes are manufactured on the Akwesasne Reserve. According to the U.S. Court of Customs and Patents Appeals and the Supreme Court of Canada, aboriginals are not exempt from paying taxes when goods cross the boarder in either direction and for commercial purposes.

There is no way to know the full extent of the problem of contraband cigarettes, however in research conducted by Imperial Tobacco, they found that illegal tobacco sales accounted for over 20% of cigarettes sold in Ontario and Quebec, compared with less than 2% in Western Canada and less than 5% in Atlantic Canada. Smokers who purchased illegal cigarettes smoked considerably more than other smokers (17% of smokers accounted for 23% of contraband cigarettes smoked). Almost all of the illegally sold cigarettes (95%) came from First Nations reserves, though only 38% were actually purchased in reserves. Others were delivered through friends or social sources (37%) or purchased at off-reserve retail outlets (20%).

Anecdotal evidence is beginning to mount that some former smokers are starting to smoke again by purchasing these inexpensive smuggled cigarettes. This may undermine all the tobacco control work that our organizations have been doing to make it harder for children and youth to start smoking and supporting interventions to make it easier for them to quit. If cheap cigarettes become readily available, it will hamper our efforts significantly. Often these cigarettes carry no health warnings which further cause a challenge and who knows what types of additives are included in the cigarettes.

We strongly encourage the federal government to work harder to create legislation to address this growing public health challenge. We would be pleased to discuss this issue with you further and encourage you to contact our Director, Mr. Jack Boomer at 250-721-4268 or jackboomer@shaw.ca.

Sincerely,

R.F. Bobbe Wood, MA
President & CEO
Heart and Stroke Foundation
of B.C. & Yukon

Scott McDonald
Executive Director
BC Lung Association

pc. Jack Boomer
Director, Clean Air Coalition of BC

¹ Gruber, Jonathan & Sen, Anindya & Stabile, Mark, 2003. "Estimating price elasticities when there is smuggling: the sensitivity of smoking to price in Canada," *Journal of Health Economics*, Elsevier, vol. 22(5), pages 821-842, September.



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² Lajoie, K. 2006. "Smuggling a provincial problem: Labour Minister says his riding hit hard, too." *Standard-Freeholder*, August 17.