

Eye on the tobacco industry

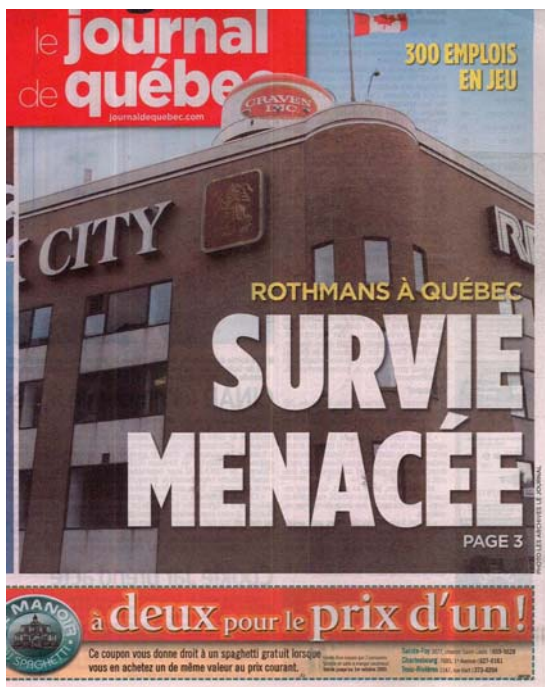
An update on current Canadian tobacco industry activities
July-September 2009

RBH says job losses, plant closure, trade dispute coming due to Bill C-32

During the summer months, Philip Morris International (PMI), the sole owner of Canada's second largest tobacco company, Rothmans, Benson & Hedges (RBH), aggressively lobbied for amendments to Bill C-32, the *Cracking Down on Tobacco Marketing Aimed at Youth Act*.

On the same day that Prime Minister Stephen Harper was in Quebec City making unrelated announcements, the *Journal de Québec* ran a front page story in which RBH claimed the Bill had the potential to force the end of production at its cigarette manufacturing factory there, which would cost some 300 jobs.

The next day the paper ran a story about a meeting between the union that represents the factory's workers, MP Maxime Bernier and the staff of Minister Josée Verner. Bernier and the Conservative Caucus in Quebec later declared they would seek changes to the bill.¹ Politicians in the United States also spoke out against the bill after PMI stoked fears of farm job losses. In July, the company helped purchase full-page colour ads which ran in *Roll Call*, *The Hill* and *Politico*, newspapers read by Members of Congress, U.S. Senators and policy-makers in Washington. The ads claimed that Bill C-32 would "endanger thousands of jobs and further damage trade relations between the United States and Canada."²



The screaming headline "Rothmans in Quebec – SURVIVAL THREATENED" was on the front page of *Le Journal de Québec* on Aug. 27, 2009.



An ad printed in U.S. publications warning that Bill C-32 would bring farm job losses there.

U.S. senators from the tobacco growing belt wrote to their Canadian counterparts urging changes to the Bill to allow the continued sale of flavoured burley tobacco in cigarettes in Canada.

As is often the case with the tobacco industry, its Bill C-32 misinformation campaign is not based on fact. American-blend cigarettes (made with a blend of burley and flue-cured tobaccos) represent only 0.8% of the Canadian cigarette market. Just over half of these—or about 0.5% of the market—contain flavours or sweeteners.³ (Burley tobacco on its own tastes bitter and is harsh to smoke, which is why tobacco companies typically flavour or sweeten it.)

With so few American-blend cigarettes sold here, the ban on flavourings in C-32 would have minimal impact on the volume of cigarettes manufactured at the Quebec City plant. Moreover, if PMI did decide to close its Quebec City factory, it would likely be simply

following the cost cutting trend started in 2006 when Imperial Tobacco Canada closed its cigarette plant in Guelph, Ontario and moved its operations to Mexico to take advantage of cheap labour costs.

Another reason why the claims of job losses are without foundation is that fact that some tobacco companies in Canada have already reformulated their American-style brands so as not to include flavourings. Rather than reveal its proprietary secrets as called for by a former B.C. regulation that required ingredient disclosure, JTI-Macdonald, Canada's third largest tobacco company, stopped adding flavours and sweeteners to its American-style cigarettes sold in Canada. Today, 56% of American-style brands sold here do *not* include flavouring agents. If tobacco companies were able to reformulate their brands in the past, then surely RBH and American manufacturers can do so now.



Fuzzy logic: Debra Steger (at left), a University of Ottawa professor and international trade law expert, appeared as a witness for Rothmans, Benson & Hedges on September 30th before a Senate committee studying Bill C-32. She joined Luc Martial of Casa Cubana (centre) and Michel Gadbois (at right) of the Canadian Convenience Stores Association in a failed attempt to have the Bill weakened.

RBH sent Debra Steger, an international trade law expert, to a meeting of the Senate Committee studying the Bill to claim that the Bill was drafted in a way that was in violation of World Trade Organization agreements and the *North American Free Trade Agreement*.

However, all the arguments thrown at Senators by opponents were not sufficiently convincing. On Sept. 30th, the Senate Standing Committee on Social Affairs, Science and Technology recommended that Bill C-32 be adopted without amendments.

Two founding partners of Grand River Enterprises charged with conspiracy to traffic in contraband cigarettes

Charges related to a conspiracy to traffic in contraband cigarettes have been laid against two founding members of Grand River Enterprises (GRE), the largest First Nations-owned cigarette company in Canada.



Ken Hill

From 2003 to 2008, Peter Montour and Ken Hill allegedly supplied tens of millions of contraband cigarettes to the Blue Stilly store in Washington State. The store was owned by three members of the Stillaguamish Tribe of Indians and was on Stillaguamish Tribal

Trust Land, just north of Seattle.

The object of the alleged conspiracy was to profit from supplying untaxed and unstamped Seneca and Opel brand cigarettes to Blue Stilly, which then sold the contraband to the general public. Sixteen counts of trafficking in contraband cigarettes and one count of conspiracy to traffic in contraband were laid against the two men. Each count of trafficking

in contraband cigarettes in the state of Washington carries a maximum penalty of five years in jail.

As reported by *The Hamilton Spectator*, this is not this first time Montour has been in trouble with the law. In 1997 he was “convicted of cigarette smuggling in Ontario and fined \$640,000, believed at the time to have been the largest penalty ever for smuggling in the province.”⁴

Hill is GRE’s chief marketing officer. He and Jerry Montour, the CEO, are the controlling shareholders of the company. Jerry Montour is Peter’s son.

In May 2008, Jerry Montour appeared in Ottawa as a witness before the Standing Committee on Public Safety and National Security, which was conducting a study on contraband tobacco. In his statements to the committee, he said his company pays all applicable federal tobacco taxes in Canada, even though, he said, there “seems to be some confusion over who has the ability to tax the product.” Montour even encouraged Committee members to increase the penalties against those caught selling tobacco products illegally:



Jerry Montour

I know in the United States of America, if you sell unstamped cigarettes for a second or third time, the punitive damages are unbelievable. They usually result in long-term incarceration.⁵

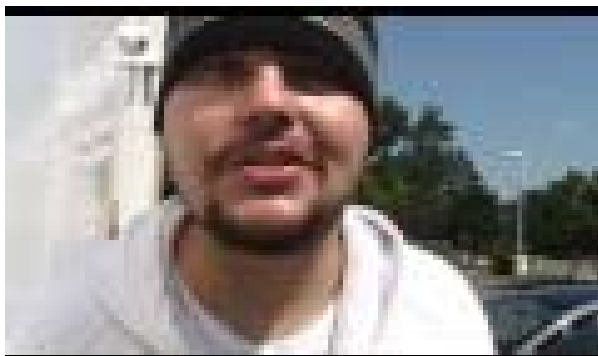
Those comments are particularly ironic in light of the charges laid against his father and Hill.

With help from cigarette manufacturers, convenience stores continue to push government to act on contraband

August and September were busy months for the tobacco industry-supported National Coalition Against Contraband Tobacco (NCACT), as it released a survey, conducted a ten-city tour around Ontario, raising awareness about the impact of contraband tobacco on youth, and launched a video. All the activity suggests the organization has a significant amount of money at its fingertips, possibly supplied by Canada’s largest cigarette manufacturers.

In August, the NCACT released the results of an Ontario survey, which found that 64% of respondents believed that both the federal and provincial governments should be doing more to combat contraband.⁶

In September, the coalition launched a video on YouTube, featuring a male character who sells contraband tobacco to teenagers out of the trunk of his car.⁷ Entitled “Butt In!” the video is the first in a series that the coalition hopes will go viral.



A screen shot of NCACT’s Butt In! YouTube video.

The video mentions the link between organized crime and illegal tobacco, and that the RCMP has said “contraband cigarettes may contain insect eggs, mould or human feces.”⁸ However, Health Canada has recently indicated there is equal risk of harmful health effects when smoking legal or illegal cigarettes.⁹

Gary Grant, a retired Staff Superintendent of the Toronto Police Service, has been hired as an NCACT spokesperson. He has been used during NCACT’s tour, which has stopped in Cornwall, London and Oshawa, to reveal the results of studies examining the sources of cigarette butts collected from public areas around high schools. In a press release September 16th, NCACT said that 23% of cigarette butts collected around 11 Ottawa area high schools were contraband.¹⁰ While NCACT was in Barrie releasing results that found 28% of butts around high schools were contraband, Leslie Gordon, the public health unit’s tobacco program coordinator, questioned the Coalition’s motives:

We recognize this public forum for what it is: the tobacco industry trying to get behind an issue that, at the end of the day, is all about protecting their sales of tobacco.¹¹

A Private Member’s Bill rejected by the Ontario legislature that would have reduced tobacco taxes on legal cigarettes also had NCACT speaking out. Without directly supporting Bill 199, *An Act to Amend the Tobacco Tax Act*, the Coalition said that options should be examined, such as “the way taxes are applied” and a ban on youth possession of tobacco products.¹²

NCACT’s members include the Canadian Tobacco Manufacturers’ Council, the Canadian Convenience Store Association, The Canadian Chamber of Commerce, the Canadian Taxpayers Federation, the National Citizens Coalition and Toronto Crime Stoppers.

Imperial Tobacco blasts governments for not stopping contraband ...

Benjamin Kemball, past president and CEO of Imperial Tobacco Canada (ITC), blasted governments across Canada for not doing enough to combat contraband in an opinion piece published in *The Chronicle-Herald* in Halifax.¹³

The column was surely one of Kemball’s last acts as the head of ITC, as he was scheduled to be replaced by a new CEO in August.

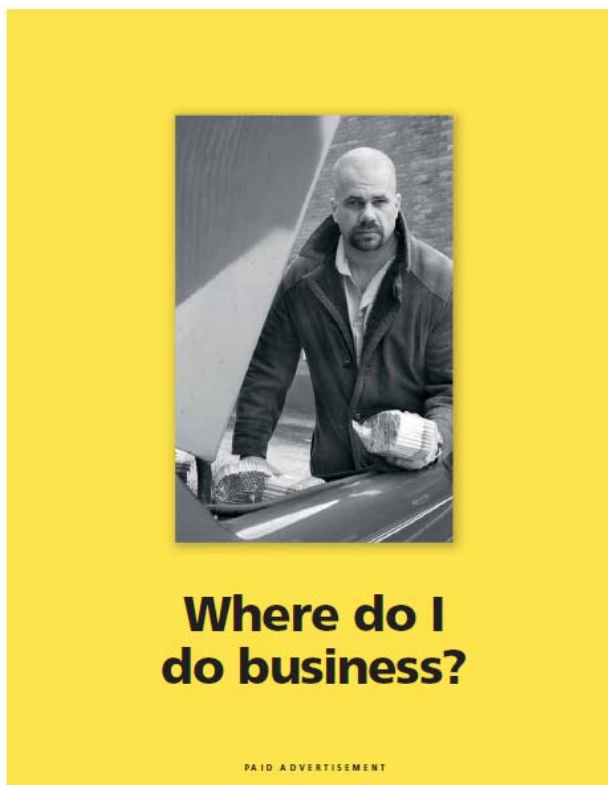
The company continues to publish full-page ads in *The Hill Times* newspaper, read widely on Parliament Hill. The latest ad suggests that contraband cigarette sellers are doing brisk business everywhere in Canada. The ad details six recent police operations that resulted in the seizure of 18 million contraband cigarettes.

... and says the Ontario government’s \$50 billion lawsuit is hypocritical

ITC continued to voice the allegation that governments have been senior partners in its cigarette business, accusing the Government of Ontario of hypocrisy for launching a \$50 billion lawsuit to recover tobacco-related health care costs.

On September 29th, Ontario Attorney General Chris Bentley announced the province was joining New Brunswick and British Columbia in initiating a lawsuit to recover these costs from tobacco companies.¹⁴

ITC was quick to put out a press release later that same day suggesting the government was targeting the legal industry, while turning a blind eye on those operating illegally.¹⁵



Everywhere

CANADA, WE HAVE A PROBLEM:
17,970,000
ILLEGAL CIGARETTES SEIZED... IN JUST 6 RAIDS

Between April and June 2009, the RCMP made 6 major seizures representing close to 18 million illegal cigarettes and \$23 million in lost provincial and federal tax revenues. According to enforcement officials, Canada purchased an estimated 73 billion illegal cigarettes in 2008, compared to 18 billion in 2007. This amounts to about 30% of all cigarettes sold in Canada. And the numbers are increasing rapidly. What is absolutely clear is that:

1. Illegal tobacco is being shipped in ever larger quantities.
2. Distribution networks are becoming increasingly sophisticated.
3. The illicit tobacco trade is spreading beyond the traditional enclaves of Quebec and Ontario and into other provinces.
4. Law enforcement alone cannot stem the illicit trade.

This is only a fraction of the illegal cigarettes trafficked in Canada. Those that are not seized are coming to a school just near you.

Province	Quantity	Value
NEW BRUNSWICK	1,700,000	\$140,000
MANITOBA	600,000	\$48,000
ONTARIO	11,900,000	\$1,140,000
NEW BRUNSWICK	800,000	\$64,000
NEW BRUNSWICK	1,000,000	\$80,000
NEW BRUNSWICK	1,100,000	\$88,000
NEW BRUNSWICK	1,200,000	\$96,000
NEW BRUNSWICK	1,300,000	\$104,000
NEW BRUNSWICK	1,400,000	\$112,000
NEW BRUNSWICK	1,500,000	\$120,000
NEW BRUNSWICK	1,600,000	\$128,000
NEW BRUNSWICK	1,700,000	\$136,000
NEW BRUNSWICK	1,800,000	\$144,000
NEW BRUNSWICK	1,900,000	\$152,000
NEW BRUNSWICK	2,000,000	\$160,000
NEW BRUNSWICK	2,100,000	\$168,000
NEW BRUNSWICK	2,200,000	\$176,000
NEW BRUNSWICK	2,300,000	\$184,000
NEW BRUNSWICK	2,400,000	\$192,000
NEW BRUNSWICK	2,500,000	\$200,000
NEW BRUNSWICK	2,600,000	\$208,000
NEW BRUNSWICK	2,700,000	\$216,000
NEW BRUNSWICK	2,800,000	\$224,000
NEW BRUNSWICK	2,900,000	\$232,000
NEW BRUNSWICK	3,000,000	\$240,000
NEW BRUNSWICK	3,100,000	\$248,000
NEW BRUNSWICK	3,200,000	\$256,000
NEW BRUNSWICK	3,300,000	\$264,000
NEW BRUNSWICK	3,400,000	\$272,000
NEW BRUNSWICK	3,500,000	\$280,000
NEW BRUNSWICK	3,600,000	\$288,000
NEW BRUNSWICK	3,700,000	\$296,000
NEW BRUNSWICK	3,800,000	\$304,000
NEW BRUNSWICK	3,900,000	\$312,000
NEW BRUNSWICK	4,000,000	\$320,000
NEW BRUNSWICK	4,100,000	\$328,000
NEW BRUNSWICK	4,200,000	\$336,000
NEW BRUNSWICK	4,300,000	\$344,000
NEW BRUNSWICK	4,400,000	\$352,000
NEW BRUNSWICK	4,500,000	\$360,000
NEW BRUNSWICK	4,600,000	\$368,000
NEW BRUNSWICK	4,700,000	\$376,000
NEW BRUNSWICK	4,800,000	\$384,000
NEW BRUNSWICK	4,900,000	\$392,000
NEW BRUNSWICK	5,000,000	\$400,000
NEW BRUNSWICK	5,100,000	\$408,000
NEW BRUNSWICK	5,200,000	\$416,000
NEW BRUNSWICK	5,300,000	\$424,000
NEW BRUNSWICK	5,400,000	\$432,000
NEW BRUNSWICK	5,500,000	\$440,000
NEW BRUNSWICK	5,600,000	\$448,000
NEW BRUNSWICK	5,700,000	\$456,000
NEW BRUNSWICK	5,800,000	\$464,000
NEW BRUNSWICK	5,900,000	\$472,000
NEW BRUNSWICK	6,000,000	\$480,000
NEW BRUNSWICK	6,100,000	\$488,000
NEW BRUNSWICK	6,200,000	\$496,000
NEW BRUNSWICK	6,300,000	\$504,000
NEW BRUNSWICK	6,400,000	\$512,000
NEW BRUNSWICK	6,500,000	\$520,000
NEW BRUNSWICK	6,600,000	\$528,000
NEW BRUNSWICK	6,700,000	\$536,000
NEW BRUNSWICK	6,800,000	\$544,000
NEW BRUNSWICK	6,900,000	\$552,000
NEW BRUNSWICK	7,000,000	\$560,000
NEW BRUNSWICK	7,100,000	\$568,000
NEW BRUNSWICK	7,200,000	\$576,000
NEW BRUNSWICK	7,300,000	\$584,000
NEW BRUNSWICK	7,400,000	\$592,000
NEW BRUNSWICK	7,500,000	\$600,000
NEW BRUNSWICK	7,600,000	\$608,000
NEW BRUNSWICK	7,700,000	\$616,000
NEW BRUNSWICK	7,800,000	\$624,000
NEW BRUNSWICK	7,900,000	\$632,000
NEW BRUNSWICK	8,000,000	\$640,000
NEW BRUNSWICK	8,100,000	\$648,000
NEW BRUNSWICK	8,200,000	\$656,000
NEW BRUNSWICK	8,300,000	\$664,000
NEW BRUNSWICK	8,400,000	\$672,000
NEW BRUNSWICK	8,500,000	\$680,000
NEW BRUNSWICK	8,600,000	\$688,000
NEW BRUNSWICK	8,700,000	\$696,000
NEW BRUNSWICK	8,800,000	\$704,000
NEW BRUNSWICK	8,900,000	\$712,000
NEW BRUNSWICK	9,000,000	\$720,000
NEW BRUNSWICK	9,100,000	\$728,000
NEW BRUNSWICK	9,200,000	\$736,000
NEW BRUNSWICK	9,300,000	\$744,000
NEW BRUNSWICK	9,400,000	\$752,000
NEW BRUNSWICK	9,500,000	\$760,000
NEW BRUNSWICK	9,600,000	\$768,000
NEW BRUNSWICK	9,700,000	\$776,000
NEW BRUNSWICK	9,800,000	\$784,000
NEW BRUNSWICK	9,900,000	\$792,000
NEW BRUNSWICK	10,000,000	\$800,000

Illegal cigarettes: coming to a province near you

IMPERIAL TOBACCO CANADA

ITC published these ad in *The Hill Times* newspaper urging government action on the contraband tobacco crisis.

Imperial Tobacco introduces international brand *Vogue* to Canada

Imperial Tobacco Canada began advertising its new Vogue Superslims cigarettes in September. The ads were published in the Canadian run of the widely read *People* magazine. Imperial says the cigarettes, already popular in some European countries, will replace the Matinée Slims product line in Canada.

Readership for *People* is high. The Print Measurement Bureau, a non-profit organization that monitors readership levels, found that 3.56 million Canadians over the age of 12 were readers of *People* in the spring of 2009,¹⁶ which means more than one in three Canadians over the age of 12 could have been exposed to the advertisement.¹⁷

Around the same time as the print advertisements, Imperial began printing text on the front of its cellophane wrappers of Matinée

Slims cigarette packages informing consumers of the shift:

A new style coming soon
See back panel for details

The back panel on the wrappers said:

Same taste. New style.

Matinée Slims will soon become Vogue Slims. While our name will change, our product, taste and quality will remain exactly the same.

Superslim cigarettes are marketed to female smokers, many of whom are concerned about their weight and use cigarettes to suppress their appetite. To exploit this, Canadian tobacco companies have recently launched many new brands of slim cigarettes. Smaller package designs are also increasingly popular (see example on next page).



A new ad for Vogue cigarettes published in People magazine in September. The brand will replace Matinée slim cigarettes and further highlights moves by Imperial Tobacco Canada to introduce international brands to the Canadian market.

This ad, for the new RBH brand Belmont Edge, featuring a 44% smaller package size, was published in *Eye Weekly* in Toronto on September 10, 2009.

BELMONT TASTE IN A COMPACT FORMAT

SMOOTH, RICH TASTE -
WORTHY OF THE BELMONT NAME



WARNING
WHERE THERE'S
SMOKE THERE'S
HYDROGEN
CYANIDE

Tobacco smoke contains hydrogen cyanide. It can cause headaches, dizziness, weakness, nausea, vertigo and stomach aches in smokers and non-smokers.
Health Canada

ADDED CONVENIENCE -
44% SMALLER
THAN YOUR AVERAGE KING SIZE PACK

BELMONT

NOTHING TASTES QUITE LIKE A ...
BELMONT

WARNING
YOU'RE NOT THE ONLY ONE SMOKING THIS CIGARETTE
The smoke from a cigarette is not just inhaled by the smoker. It becomes second-hand smoke, which contains more than 50 cancer-causing agents.
Health Canada

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