

Introduction

Five and a half years have elapsed since the dramatic, smuggling-induced tobacco tax rollback of 1994, which reduced the price of cigarettes by about half in much of Canada.

The public health consequences of this rollback are now well established. Public health has suffered as decades-long progress against tobacco use has slowed dramatically.¹ Low cigarette prices have neutralized the beneficial impact of advertising and promotion restrictions, of improved package warnings, of smoke-free environments and of public education has been undermined by low cigarette prices.

On the financial side, Canadian governments have relinquished billions of dollars in revenue as a result of the 1994 rollback. Tobacco industry profits, meanwhile, have continued to set new records, year after year, with annual pre-tax profits increasing by a staggering 62% between 1993 and 1998.²

Canadian cigarettes are now among the lowest priced and least taxed in the industrial world. Cigarettes in U.S. border states are now CDN\$17 per carton more expensive than in Ontario and Quebec, because multibillion-dollar litigation settlement payments to U.S. state governments have been passed on to smokers through hefty cigarette price increases. Other alleged incentives to smuggle have been similarly addressed. Moreover, tobacco industry participation in contraband activities along the Canada-U.S. border has been exposed, leading to both prosecutions and convictions. (In at least two cases, investigations continue.)

The importance of restoring cigarette taxes is acknowledged with virtual unanimity among politicians and policy advisors. Yet, despite widespread support for a significant tax increase, only minor adjustments have been made. Continued delays are attributed to a ‘gentleman’s agreement’ with the provinces, under which the federal government will make no tobacco tax increases without provincial consent.

“The fact is that the Canadian manufacturers have benefited directly from this illegal trade. They have known perfectly well that their tobacco exports to the United States have been re-entering Canada illegally. I believe they have not acted responsibly.”

The Right Honourable Jean Chrétien, Prime Minister, House of Commons, February 8, 1994

¹ In the 11 years preceding the rollback (1983-1993), per capita consumption fell by 42.3%. In the five years since the rollback, the decline in per capita consumption has almost stopped, and has now fallen to only 3.2%. See figure 14 and Appendix A, Tables F and G.

² Not including RJR-Macdonald, which is not publicly traded and for which figures are not available.

*“Therefore, much as we may
all regret the necessity of
lowering cigarette taxes, we
must do so at least until we
have put the smuggling
networks out of business.
Then we will be able to
restore the appropriate level
of taxation that the situation
needs.”*

**The Rt. Hon. Jean Chrétien,
House of Commons
February 8, 1994**

The 1994 tax reduction was presented as a temporary measure which would be reversed as smuggling was brought under control. This temporary measure is entering its sixth year, and risks permanency. The time has long pasts for the government to restore cigarette prices to levels high enough to protect young Canadians from becoming addicted to cigarettes and high enough to encourage Canadian smokers to reduce the amount they smoke – or, better yet, to quit.