Part 6

Using Tobacco Taxes to Fund Effective Measures to Reduce Smoking

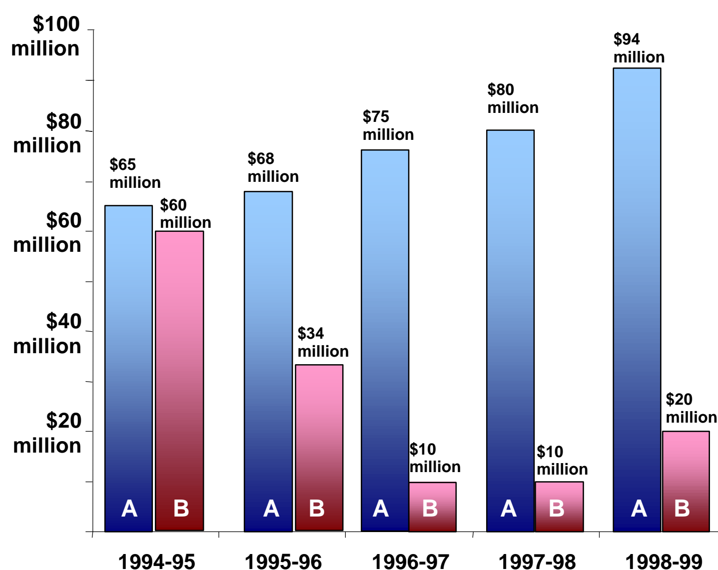
Since 1994, the tobacco tax policy of many provinces and the federal government has led to lost public revenues and losses to public health. There is another loss which should be considered in a review of this policy: the lost opportunity to apply revenues from cigarette taxes to effective programs to reduce smoking.

When lower cigarette taxes were announced in February 1994, they were accompanied by a modest surtax on tobacco company earnings for three years (at the end of the three years, it was renewed for a further three). This surtax, the Prime Minister assured Parliament "will fund the largest anti-smoking campaign this country has ever seen." (Hansard, February 8, 1994).

"We are imposing, effective immediately, a substantial increase in corporate taxes on Canadian tobacco manufacturers. We are imposing a three-year health promotion surtax on tobacco manufacturing profits. ... [T]he federal government will receive up to $200 million in extra revenue over the three years. The money generated by this surtax will fund the largest anti-smoking campaign this country has ever seen."

Prime Minister Jean Chrétien, House of Commons, February 8, 1994

Figure 20
Estimated Revenues from the "Tobacco Manufacturers' Health Promotion Surtax" on tobacco companies and expenditures on anti-tobacco programming



Sources: Formal accounting has not been provided either for revenues under the Tobacco Manufacturers' Health Promotion Surtax or expenditures under the Tobacco Demand Reduction Strategy. Total expenditures for 1994-97 were $104 million, according to Health Canada's "Evaluation of the Tobacco Demand Reduction Strategy, Final Report, July 1998."

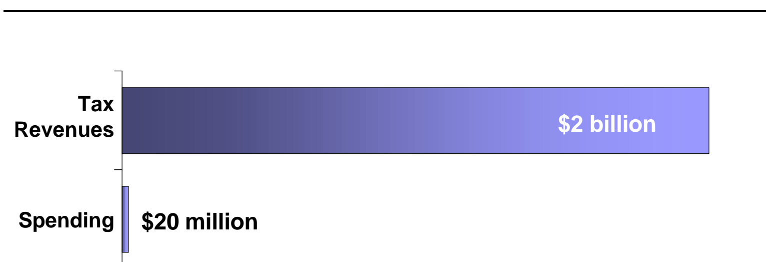
In 1994, Health Canada did, in fact, launch the largest anti-smoking campaign this country has ever seen. It was also one of the shortest-lived. And although the health promotion surtax was renewed for a further three years, the “health promotion” measures it funded quickly became fraction of their original levels. In the past five years, the government has collected almost $400 million in tobacco “health promotion” surtaxes, but would appear to have spent less than half of that on all tobacco-reduction measures.

Contrasting total government revenues from tobacco sales with money spent on reducing tobacco use reveals an even more glaring discrepancy, because federal tobacco tax revenue is much greater than the new surtax . For every carton of cigarettes sold, the federal government receives approximately $10 in excise tax and duties, but spends less than 10¢ on all public measures to reduce tobacco use. That is, of the total $2 billion received in tobacco taxes, the federal government spends only $20 million on any form of tobacco control.

The federal government budget for the following activities must currently be drawn from less than 1% of all tobacco tax revenues:

- enforcement of tobacco laws (i.e. discouraging retailers from selling to children, or promoting awareness of current laws)
- monitoring tobacco use (i.e. Statistics Canada surveys and other methods)
- research into ways to reduce smoking (i.e., behavioural research to support better counselling, or regulatory research to develop less addictive cigarettes)
- public education programs (i.e. school-based education programs)
- public education campaigns (i.e. mass media advertising)
- health promotion programs (i.e. programs to help smokers quit)

Figure 21
Federal revenues from tobacco taxes and duties and expenditures on anti-tobacco programming, 1999



Sources: Public Accounts of Canada, 1998-99 (revenues); Expenditures estimated for 1998-99.

It is not only in comparison with tobacco-based revenues that the federal government's investment in measures to reduce smoking falls short. Relative to the human and financial consequences of tobacco use, prevention measures for tobacco by all governments and funders are significantly smaller than they are for other health issues of lesser health import. Since there is no evidence that other health issues are receiving too much funding, this is a further indication that tobacco-use prevention is underfunded.

A 1996 report by the Canadian Centre for Substance Abuse reported that, while tobacco killed five times as many Canadians as alcohol and 45 times as many as illicit drugs, governments spent three times as much on research and prevention programs for alcohol as they did for tobacco, and an equal amount for illicit drugs and tobacco.

Figure 22
Costs of Substance Abuse and Government Spending on Prevention & Research

	Alcohol	Tobacco	Illicit Drugs
Human Health			
• Deaths	6,701	33,498	732
• Years Life Lost	186,257	495,640	31,147
Economic Costs			
• Direct Health Care Costs	$1,300,600,000	$2,675,500,000	$88,000,000
• Indirect Costs	$4,136,500,000	$6,818,800,000	$823,100,000
Expenditures on Prevention			
• Prevention & Research	$141,400,000	$48,000,000	$41,900,000

Source: The Costs of Substance Abuse in Canada. Canadian Centre for Substance Abuse, 1996.

Tax Revenues from Kids' Smoking

Every year, about 70 million packages of cigarettes are smoked by children too young to legally be sold or provided with cigarettes (see Appendix A, Table H). Irrespective of whether or not these children were illegally sold the cigarettes or whether they were illegally provided with them by adults, taxes were paid on the 70 million packages. This results in revenues of $90 million to combined provincial governments and $80 million to the federal government.

For every dollar the federal government spends on measures to prevent smoking (including measures to protect minors and stop illegal sales), it receives $4 from youth

who smoke. The net profit to the federal government from under-age smoking is $60 million.

World Health Organization recommends comprehensive programs to reduce tobacco use

Tobacco is currently responsible for 7% of deaths world-wide. Within 20 years, the number of global tobacco-caused deaths is expected to increase to 20% of all deaths – the percentage now observed in Canada. Gro Harlem Brundtland, the new director-general of the World Health Organization has identified tobacco as one of two areas for intense attention within the WHO.

To reduce tobacco use, WHO recommends a comprehensive strategy - including the allocation of a portion of tobacco tax revenues to anti-smoking measures. WHO also recommends that tobacco taxes be kept high enough to discourage smoking, and that governments ensure that cigarette taxes rise faster than inflation. Other measures promoted by WHO include a total ban on advertising and sponsorship, smoke-free environments and prominent health warnings.

World Health Organization:
A 10-Point Programme for Successful Tobacco Control

Tobacco control must come from all sectors, and it must be comprehensive in scope. The international health community has recognized that a partial solution to this major problem in not enough. The following, derived from the World Health Assembly resolutions, along with recommendations from other international and intergovernmental bodies, lists some key elements that should be included in comprehensive national tobacco control programmes:

1. Protection for children from becoming addicted to tobacco through such measures as the banning of sales to and advertising targeted at children.
2. Implementation of fiscal policies to discourage the use of tobacco, such as tobacco taxes that increase faster than the growth in prices and income.
3. Allocation of a portion of the money raised from tobacco taxes to finance other tobacco control and health promotion measures.
4. Health promotion, health education and smoking cessation programmes. Health workers and institutions set an example by being smoke-free.
5. Protection from involuntary exposure to environmental tobacco smoke (ETS).
6. Elimination of socioeconomic, behavioural and other incentives which maintain and promote the use of tobacco.
7. Elimination of direct and indirect tobacco advertising, promotion and sponsorship.
8. Controls on tobacco products, including prominent health warnings on tobacco products and in any remaining advertisements; limits on and mandatory reporting of toxic constituents in tobacco products and tobacco smoke.
9. Promotion of economic alternatives to tobacco growing and manufacturing.
10. Effective management, monitoring and evaluation of tobacco issues.

Source: WHO Fact Sheet No. 159, May 1998

The U.S. Centers for Disease Control and Prevention recommend minimum funding on tobacco control ten times higher than current federal funding

In the United States, rigorous analysis has recently been given to the evaluation of tobacco-control measures, with a view to establishing both the scope and the intensity of activities needed to reduce smoking. Much of this interest and activity was sparked by the recent settlement between U.S. attorneys general and U.S. tobacco companies, which resulted in payments to state governments funded by price increases on tobacco products.

To assist state governments in investing this money in programs and measures which would reduce smoking, the U.S. Centers for Disease Control reviewed the evidence supporting public and other measures, and provided guidelines based on this evidence. For each jurisdiction, they provided an estimate of how much money was required in each area of activity to meet the standards established by 'best practices.'[55] These practices were culled in large measure on the evidence of jurisdictions like California and Massachusetts which had significantly reduced tobacco use following the adoption of special levies on tobacco products.

Based on CDC guidelines, Canadian governments (federal and provincial) should increase their budgets five-fold to twenty-fold from the current $20 million.

[55] Best Practices for Comprehensive Tobacco Control Programs. U.S. Department of Health and Human Services. Centers for Disease Control and Prevention. National Center for Disease Prevention and Health Promotion. Office on Smoking and Health. August 1999.

Figure 23

Centers for Disease Control Guidelines for Tobacco Control Funding

	Guidelines for spending in a jurisdiction of 30 million people	
	Lower	*Upper*
Community-based programs to reduce tobacco use, i.e. • Local partnerships with ethnic or cultural communities • Educational programs to youth, retailers, enforcement, etc • Promote local policies, i.e. smoke-free restaurants	US$ 32 million	US$ 80 million
Community-based programs to minimize health effects • Asthma programs • Dental counselling • Cancer registries	US$ 4 million	US$ 4.75 million
School Programs i.e. • Evidence-based curricula, teacher training, tobacco-free policies	US$ 25 million	US$ 37 million
Enforcement • Smoke-free places • Sales to minors	US$ 750,000	US$ 1.5 million

Partnership programs, i.e.
• Programs delivered by agencies better equipped than government for targeted populations, such as.
  • Quit-lines, physician training
  • Racial minorities, labour unions
	US$ 13 million	US$ 31 million

Counter-marketing, i.e. • Media advocacy, paid counter-advertising • Replacement of tobacco sponsorship	US$ 31 million	US$ 95 million
Cessation programs, i.e. • Full implementation of medical guidelines on smoking cessation • Development of appropriate materials	US$ 30 million	US$ 103 million
Surveillance and Evaluation, i.e. • Surveys on tobacco use and attitudes • Evaluation of impact and establishment of best methods	US$ 13.6 million	US$ 35 million
Administration and Management	US$ 6.8 million	US$ 17.7 million
TOTAL recommended by CDC	**US$ 156 million**	**US$ 407 million**
Per Capita Cost	**US$ 4.95 (CDN$ 7.00)**	**US$ 12.88 (CDN$ 18.00)**
Current federal government spending on tobacco control	**CDN$ 20 million**	**CDN$0.66**

Source: Centers for Disease Control and Prevention, Best Practices for Comprehensive Tobacco Control Programs—August 1999.

Ontario Expert Panel Recommends Increased Tobacco Taxes and Increased Program Funding

In December 1998, the Ontario Minister of Health (the Hon. Elizabeth Witmer) appointed an expert panel to advise on the renewal of the Ontario Tobacco Strategy, and appointed leading Ontario researchers on tobacco to this panel. These individuals are among Canada's foremost authorities on public health and tobacco use.

These epidemiologists, sociologists and medical experts reviewed the extensive evidence behind public health measures which encourage or discourage smoking among children and adults. The expert panel was unequivocal in its support for a comprehensive tobacco strategy funded on the basis of 0.5 cents per cigarette sold per year, introduced over a three year period. This is the equivalent to $250 million at a federal level – more than ten times the current federal investment.

The expert panel recommended[56]:

- An immediate tax increase on cigarettes in Ontario to equal surrounding jurisdictions
- Active lobbying for co-operation on taxes with federal government and Quebec
- Tax paid markings printed directly on cigarette packages
- Intensive mass media campaigns
- Community-based public education programs
- School-based prevention programs
- Plain packaging, additional health warnings and ingredient information and package health warnings
- An end to deceptive labelling, such as 'light' and 'mild.'
- Stronger regulations to prevent sales to minors
- Tobacco products placed out of sight and behind counters at point of sale
- A ban on chewing tobacco and snuff
- Mandatory disclosure by tobacco companies of marketing and research
- Smoke-free indoor public places, with immediate implementation in youth recreation facilities
- Ban smoking in all indoor workplaces, with allowances for separately ventilated and enclosed smoking areas
- Comprehensive program to assist smokers in quitting

"We recommend that the government of Ontario take action on tobacco prices, public education, marketing including packaging, labelling and information disclosure, retail controls, smoke-free spaces, supports for smoking cessation, finance and infrastructure, research, monitoring and evaluation and cost recovery litigation. Action is needed in all of these areas if the tobacco disaster is to be abated. Piece-meal measures, based on ease of implementation, low cost or other considerations, will not work."

Actions Speak Louder than Words. Report to the Minister of Health from her Expert Panel on the Renewal of the Ontario Tobacco Strategy. February 1999.

[56] Actions Speak Louder Than Words. Getting Serious About Tobacco Control in Ontario. A report to the Minister of Health from her Expert Panel on the Renewal of the Ontario Tobacco Strategy. Addiction Research Foundation, 1999.

- Increased staffing to manage strategy, with Chief Medical Officer in leadership role
- Comprehensive arm's length research
- Suing tobacco companies

Tobacco Industry Responsibility Act

Senate Bill S-13, introduced by Senator Colin Kenny in 1998 and sponsored in the House of Commons by Dr. Carolyn Bennett, mobilized Canadian communities to call on the government to invest in a meaningful campaign to protect kids from tobacco. S-13 proposed to set up an agency to run an effective anti-smoking campaign, and to fund its annual $120 million budget with a levy on tobacco manufacturers of 50¢ for each carton of cigarettes sold in Canada.

Responding to a government point of order, the House of Commons Speaker ruled that constitutional constraints prevented the bill from being introduced in the House of Commons after it had cleared the Senate. Although his ruling killed S-13, there is continued support for the kind of measures it proposes. In November 1998, a Canadian Cancer Society sponsored Environics poll showed that 76% of Canadians were supportive of the measures in this bill (82% when the undecided were factored out). Support was equally demonstrated across income, occupation, age and education categories. It was also equally felt across Canada (West 79%, Ontario 74%, Quebec 76%, Atlantic 80%). Only 17% of Canadians were opposed.

Senator Kenny's proposal satisfied a number of concerns triggered by recent events in tobacco control. Where the federal government had quickly decimated its anti-tobacco initiatives in 1995, S-13 promised stable funding over time, with adequate resources to achieve the desired effect. Where the government had shied away from the style of strong counter-advertising proven effective in U.S. campaigns (and well received in British Columbia), S-13 proposed an arm's length agency which would have the independence to pursue this strategy. Where the federal government's tax policy had resulted in increased tobacco industry profits, S-13 proposed to directly claw back $120 million of those new profits.

Although the government opposed S-13 on procedural grounds, it repeatedly emphasized its support for the principles of the bill. Several weeks after the Commons Speaker struck down bill S-13, the Honourable Allan Rock, Minister of Health, asked his caucus colleagues to review the issue of a youth education campaign against smoking and to

make recommendations to him. The report of a caucus committee was received by the Minister in June 1999, but has not yet been made public.[57]

Recommendations for Investing in Health

- The federal government should adopt a comprehensive tobacco control program which includes measures equal in scope and impact to those recommended by the World Health Organization. This program could be designed on the evidence supplied by the U.S. Centers for Disease Control and Prevention and reflect the wide public and political support given to Bill S-13, the *Tobacco Industry Responsibility Act,* the Senate bill rejected in a controversial decision by the Commons Speaker. It should be noted that Bill S-13 recommended the allocation of a minimum of $120 million per year, while the CDC recommendation, if applied to Canada, would work out to a minimum expenditure of $ 222 million. Health Canada's current $20 million per year is far below these recommendations, far below the more than $90 million per year collected from the Tobacco Manufacturers' Health Promotion or the more than $80 million in federal tax revenue collected from illegal sales to youth.

- The Health Promotion Surtax on tobacco manufacturer profits, scheduled to expire in February 2000, should be made permanent. In addition, the surtax rate should be increased.

- The proposed increase in tobacco taxes and revenues could facilitate the expansion of the federal government's current tobacco control efforts and the fulfilment of expectations for a government replacement for Bill S-13, the *Tobacco Industry Responsibility Act.*

Recommendations for a "Clean-Hands" Tax Policy

- The 'health promotion surtax' on tobacco industry profits, which is due to expire in February 2000, should be renewed. As the government indicated in 1994, this is an appropriate mechanism to raise money to prevent and reduce tobacco use.

[57] According to the *Globe and Mail*, the caucus committee report called for both a tax increase and a "new Health Canada tobacco bureau to oversee a mass-media campaign aimed at getting young people to either quit or not start smoking." Anne McIlroy, "Ottawa urged to increase taxes on cigarettes," *Globe and Mail*, June 11, 1999, p. A4.

- The government should stop diverting this surtax revenue away from health promotion measures which reduce smoking. Currently, almost three-quarters of the surtax is spent on other objectives.

- Clear objectives for the 'health promotion surtax' should be set and a transparent accounting of how it is spent provided. No summary of expenditures on tobacco initiatives has been released since 1996-97.

- The government should refuse to profit from the sale of cigarettes to children. Federal revenues received from the illegal sale of cigarettes to minors is more than $80 million a year. This money should be allocated in its entirety to measures to reduce smoking.