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From: M. Descôteaux

To: Vice-Presidents
Division Heads
Regional Sales Directors
Plant Managers

January 27, 1993

QUEBEC COALITION FOR FAIR TOBACCO TAXATION

For your information, February 2 will mark the launch of a province-wide effort, on the part of the Coalition, to bring about a sizeable roll-back of tobacco taxes in Quebec.

The campaign will be led by the Association des détaillants en alimentation du Québec (ADA), with the support of Quebec tobacco growers, of BCTWIU, of NATCD, of the Canadian Council of Grocery Distributors, of the Smokers' Freedom Society and of the CTMC.

Details

In the course of the campaign, Quebec retailers will first visit individually their federal member of parliament, then their member of the National Assembly, to explain their problems (a direct consequence of tobacco smuggling), and to demand a substantial tax roll-back on tobacco products. These visits will be coordinated by members of ADA on a regional basis.

To maximize the political weight of their demands, retailers will be asking the general population to express its support for a tax roll-back. Thus, in some 5500 retail stores in the province, posters will be put up and «ballot boxes» will be installed to collect the signatures of citizens willing to express their support for a tobacco tax roll-back. The theme of the campaign: «Les taxes injustes sur le tabac font le bonheur des vendeurs... criminels!» (rough translation: «Unfair tobacco taxes play into the hands of smugglers!»)

Some advertising will be used in support of the campaign, although the ad schedule has not as yet been finalized.

Other activities are planned in the course of the overall campaign. At the federal level, retailers have received a commitment from the president of the Quebec P.C. Caucus to arrange for the Coalition to meet the National Caucus on the issue, and confirmation of the meeting is expected momentarily. Provincially, the Coalition has submitted a brief to the Quebec Parliamentary Commission on Budget and Administration, and should be heard by the Commission on February 16 in Quebec City.

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Conclusion

Obviously, the campaign has been timed to coincide with the federal and provincial budget schedule. In effect, the campaign hopes to add pressure on governments (especially the feds) to cooperate with each other to bring about a tobacco tax decrease.

Should the campaign fail to achieve a tax roll-back, it will at least contribute to further increase the awareness of the problem among the population (already high), and generate sizeable media coverage of the issues, and particularly that of the plight of small retailers whose concerns, according to ITL public opinion research, enjoy a considerable amount of support from the population at large.

As usual, should you receive enquiries from the media, please refer them to Public Affairs.

M. L. G. 1.

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LES TAXES INJUSTES

sur le tabac font

le non-paiement

VENDEURS... CRIMINELS!



Association
des détaillants
en alimentation
du Québec

PROMESSTIONS!



Association
des détaillants
en alimentation
du Québec

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LES TAXES INJUSTES sur le tabac font

Je proteste !

Cessez de harceler des personnes respectables avec vos taxes injustes. Les taxes exagérées ont fait apparaître un marché noir du tabac qui sert à financer des activités criminelles. Il est temps que ça cesse ! Le moyen d'y arriver c'est de revenir à la raison en ramenant les taxes sur le tabac à un niveau réaliste.

Nom _____

Adresse _____ Ville _____

Signature _____

le bonheur des **VENDEURS... CRIMINELS!**

Si les taxes abusives devaient servir à accélérer l'abandon de la cigarette, c'est raté !

Les prix exorbitants ont poussé les consommateurs à rechercher des alternatives moins coûteuses. Les voleurs et les contrebandiers se sont empressés de créer un réseau parallèle pour répondre à la demande.

● Les policiers et les détaillants vous confirmeront que le nombre de vols, y compris un nombre élevé de vols avec violence, a doublé et même triplé.

● Les marchands légitimes vous confirmeront que leur chiffre d'affaires et l'achalandage ont baissé de 25 % à 40 % avec plus de 3 500 mises à pied et un nombre très élevé de faillites.

● Le gigantesque marché noir qui sert de financement à toutes sortes d'activités criminelles fait perdre des centaines de millions de dollars aux gouvernements. Cet argent perdu, il va falloir le retrouver tôt ou tard... dans la poche de tous les contribuables !



Association
des détaillants
en alimentation
du Québec

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LES TAXES INJUSTES

sur le tabac

font le bonheur des
VENDEURS... CRIMINELS !

PROTESTONS !

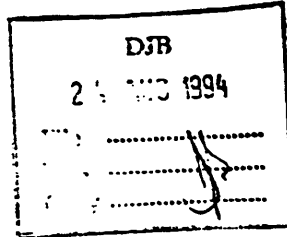
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Imperial Tobacco Limited/Limitée



August 3, 1994

Mr. David Bishop
Tobacco Tax Manager
British-American Tobacco Company Limited
Millbank Knowle Green
Staines Middlesex
TW18 1DY



3810, rue St-Antoine Street
Montréal, P.Q. H4C 1B5
(514) 932-6161
P.O. Box 6500 C.P.
Montréal, P.Q. H3C 3L6
Cable/Cable 'Telimp'
Telex: Télex 055-60673
Fax (514) 938-0432

Dear Mr. Bishop,

Our CEO, Don Brown, has asked me to respond to your fax of July 19 on Excise Reductions.

I am sending you by mail a considerable amount of background information. In addition to a text and supporting documents concerning ITL's and industry's lobbying activities on the issue, a number of charts are enclosed which provide recent industry sales data illustrating the impact of the tax rollback in Canada, as well as a couple of historical charts on total domestic sales and DFX and the evolution of CPI vs TPI.

I hope this will provide you with most of the information that you requested. If we can me of further help, please do not hesitate to communicate with me.

Sincerely,

Michel Descôteaux
Public Affairs Director

c.c. D. Brown

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LOBBYING FOR A TOBACCO TAX ROLLBACK IN CANADA

Introduction

Since the beginning of the 80's, the Canadian tobacco industry has lobbied long and hard to contribute to the tax rollback which took place in February, 1994. The following is a summary of some of the key lobbying measures undertaken by the Canadian tobacco industry and ITL over this 10-15 year period.

From the beginning of the 80's to 1985, the focus was to convince governments to abandon automatic indexation which caused tobacco taxes to continually spiral upward. This was accomplished in the last few months of the then Liberal federal government (summer of 1985). The new government, though, led by Conservatives (who had opposed automatic indexation as a matter of principle), continued the policy of ever higher tobacco taxes, though on an ad hoc basis.

The first signs of smuggling as a result of high tobacco taxes began to appear around 1986-88. From then on, and on an increasing basis as smuggling developed (more rapidly in the province of Quebec but also in other provinces), the industry's efforts to have governments reduce their taxes shifted in their focus, playing up the consequences of smuggling for Canada (reduced government revenues, impact on manufacturing, growing, wholesale and retail industries).

Throughout this period, the industry's lobbying was mostly conducted through traditional means (i.e. meetings with elected officials and senior civil servants involved in the issue, presentation of briefs and economic impact studies to governments, enlistment of industry allies in a similar fashion, etc.).

Mobilizing smokers

The most spectacular "untraditional" initiative was called the BOSTON TEA PARTY project, which enlisted the active support of smokers in opposition to high tobacco taxes. This initiative was conducted in the Spring of 1991 by two of the three major Canadian tobacco manufacturing companies. It consisted in printing on the inside shell of cigarette packages a message addressed to the federal Prime Minister calling for a rollback of tobacco taxes. The campaign was supported by an advertising campaign in the media and in retail stores. In a matter of a few months, millions of these messages were delivered to the Prime Minister (see enclosed materials for more information). The government, though, maintained its course.

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The export tax

In February 1992, in the face of the rapidly increasing smuggling of tobacco products in Canada and as a result of intense lobbying from anti-smoking organizations (who obtained, we believe, the eager endorsement of the federal police authorities), the federal government announced the imposition of an export tax which threatened the future of all exports of Canadian-made tobacco products.

In response, one of the major tobacco companies decided to move a portion of its production off shore, and to suspend its leaf negotiations with Canadian tobacco growers. It is in this context that an intense period of lobbying of federal government authorities began, mostly by tobacco growers who were able to enlist the support of numerous mayors and other local politicians. Simultaneously, the union representing tobacco workers staged a massive demonstration in Ottawa to oppose the measure (see attached March-April 1992 issue of Leaflet, ITL's house organ). At the same time, the Canadian tobacco industry entered a period of intense communications with government officials to convey information and call for the rescinding of the export tax.

In April of the same year, i.e. eight weeks later, the government came to reason and announced the suspension of the export tax (see attached federal government release).

Research into the size of the problem

It became apparent that while governments and the media were widely aware of the existence of smuggling, no one really had a good indication of the size of the problem. To solve this problem, the industry retained the services of some outside experts which produced a series of report documenting both the size of the problem and ways in which Canadian-made tobacco products were brought back into the country for illegal distribution and sale (see Lindquist Avey Macdonald Baskerville Inc. report entitled "Contraband Tobacco Estimate", dated June 30, 1992 attached).

In order to make the media and the general public more aware of the findings of these studies, a public relations tour of some of the country's major cities was organized, featuring the author of the reports, Rod Stampler, as the spokesperson on the issue. Simultaneously, private meetings with politicians and government officials were arranged for the author, so that his report could become the document of reference on these aspects of the issue.

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More mobilization

As was said before, the province of Quebec was the hardest hit of all provinces. At the beginning of 1993, smuggling had reached well over 40% of the market and was continuing to rise rapidly.

In order to further raise awareness of the acuteness of the problem, the industry joined together with growers, union, wholesalers and retailers to launch a campaign soliciting the support of smokers for a tax rollback (under the aegis of the Quebec Coalition for Fair Tobacco Taxation). The signatures were collected by retailers who brought them to their member of Parliament and member of the National Assembly in the course of private meetings. This initiative was supported by advertising in media and in retail stores, and by public relations activities (see attached materials for more information).

In the fall of 1993, the Quebec government announced it would enter discussions with the federal government to implement a tax rollback. It made it clear that if no agreement was possible, a unilateral tax rollback could not be ruled out (since an election was scheduled for the fall of 1994 at the latest, the government did not want to face the electorate without having solved a problem that showed up daily in question period and in the media).

The taxation / consumption debate

One of the central issues involved in the public debate surrounding tobacco taxation and smuggling was whether high taxes had contributed to reducing tobacco consumption in Canada, especially among the young, an objective which every single politician in the country would support. Anti-smoking organizations were relentless in promoting the view that Canada's initiatives had caused "world precedent-setting" reductions in smoking rates. To counter this argument, the Canadian tobacco industry commissioned an expert firm to look at the relationship (or lack of it) between the two. The firm produced a report in February of 1993 which contradicted the anti-smoking view, a report which was privately presented to government authorities by representatives of the industry (see Informetrica Ltd document attached entitled "Smoking Trends In Canada - An analysis of the data"; on the same issue, see also Federal Finance Department report dated June 1993 entitled "Tobacco Taxes and Consumption").

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Federal election

A federal election took place in the fall of 1993, preceding the Quebec election of 1994. Concerned that the issue of smuggling could very well become an issue in the campaign, to prevent the resurgence of the export tax as a possible solution to the problem (which anti-smoking organizations continued to promote), and to ensure that the leading players of both key parties in the campaign would have an understanding of the issues involved, ITL prepared a letter addressed to the leaders of both parties and their key assistants and arranged for some of its senior executives to personally meet with many of them to discuss all of the relevant facts (see attached copy of letter to Prime Minister Kim Campbell for additional information).

Immediately following the election, the industry continued to lobby the new government in favor of a tax rollback.

Retailers resort to illegality

In the winter of 1993-94, frustrated that their efforts had not led to a tax rollback (and badly suffering from the illegal competition of criminal distributors of smuggled cigarettes), a small group of retailers announced publicly that they would undertake their own series of "illegal sales", in effect daring government authorities to arrest and criminally charge them. These events attracted enormous crowds of buyers and considerable media attention as well as a surprisingly high degree of support for their gesture despite the fact that it was clearly illegal (see attached articles on MATRAC).

That last initiative contributed to further increase the pressure on both the federal and provincial governments and probably was the straw that broke the camel's back. On February 8, 1994, the federal government and that of the province of Quebec jointly announced a dramatic tax rollback (see attached government announcements dated February 8, 1994 for more information).

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Looking to the future

While the tax rollback has now almost totally eradicated the smuggling of Canadian-made and non Canadian-made cigarettes from the USA and elsewhere, a number of problems remain:

- a) Five provinces and two territories have yet to join the federal government in reducing their tobacco taxes. While international smuggling has been reduced in these jurisdictions, it has been replaced by interprovincial smuggling. At this point in time, we are not optimistic that these jurisdictions will reduce their tobacco taxes in the near future.
- b) The federal and provincial tax rollbacks may well be temporary. The very day the Quebec premier announced the measure, he also stressed that the government would start raising taxes again as soon as smuggling had been definitely eradicated in the province (albeit in a manner and at a rate that would ensure that smuggling did not erupt again). In the current election campaign, the issue has surfaced and these positions, endorsed by the leaders of both major contending parties, have been confirmed (see attached recent press clippings).
- c) The increases in American tax rates on tobacco products proposed by the Clinton administration to finance in part its public health programme will contribute to augment the pressure in Canada in favour of corresponding tax increases.

For more information: Michel Descôteaux, Public Affairs Director
Imperial Tobacco Limited, Montreal, Canada
telephone: (514) 932 6161, local 2361
fax: (514) 932 3721

August, 1994

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