

Summary of Recommendations

The decision to roll back tobacco taxes was a deliberate policy shift made over the strenuous objections of experts both in the health community and in other policy areas. It was not, however, a one-time decision. Subsequent budget cycles have required governments to re-think and re-examine this decision. The federal and provincial governments involved have continued to refuse to restore taxes, other than through modest increases in some provinces. As a result, the damage from their initial 1994 decision accumulates and compounds.

To assist governments in rebuilding tobacco tax policies which protect children from nicotine addiction and which encourage smokers to quit, as well as strengthening policies which prevent the criminal contraband trade, we make the following recommendations:

“The psychology of smoker demand is such that they are more likely to absorb smaller and more frequent price increases than larger and less frequent price increases.”

British American Tobacco, Key Area Paper: Excise Taxation of Tobacco Products, May 1992, p. 4. (Document number 699138229 in State of Minnesota, et al. v. Philip Morris, Inc., et al.)

Regaining lost ground

- Cigarette taxes should increase by at least \$10.00 per carton (\$5.00 federal, \$5.00 provincial) in Ontario, Quebec, New Brunswick, Nova Scotia and Prince Edward Island.
- If provinces are unwilling to make a joint increase with the federal government, the federal government should set aside the “gentleman’s agreement” and move quickly to act alone to raise tobacco taxes.
- From a public health perspective, a single, major tobacco tax increase is preferable to a series of small tax increases, since it is more likely to have a significant impact on consumption and youth smoking prevalence.
- Ontario taxes should be increased by a further \$1.00 per carton (50¢ federal, 50¢ provincial) to remove the current differential between Ontario and Quebec taxes.
- There should also be a federal cigarette tax increase in the four Western provinces, in Newfoundland. And the territories of at least \$2.00 per carton.
- In Alberta, there should be an additional provincial increase of at least \$3.00 per carton, given that tobacco taxes are significantly lower than in neighbouring B.C. and Saskatchewan.

Restoring balance

- The loopholes allowing lower taxes for tobacco sticks and roll-your-own tobacco should be eliminated.
- The tax rate on a tobacco stick and on the quantity of roll-your-own needed to make a cigarette (now less than 1g) should equal the tax rate on one cigarette.
- Similarly, the loophole for raw leaf tobacco and for smokeless tobacco should be eliminated. The tax on one gram of raw leaf tobacco and on one gram of smokeless tobacco should be equalized with the tax rate on one cigarette, as is the case in Western Canada and Newfoundland.

Investing in Health

“The Americans have given us a safety margin by increasing their own taxes, which could help us.”

Quebec Finance Minister Bernard Landry, Canadian Press, “Landry hints about higher cigarette tax”, March 19, 1999

- 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 government should stop diverting this surtax revenue away from health promotion measures which reduce smoking. Currently, almost three-quarter 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.
- The proposed increase in tobacco taxes and revenues could facilitate the expansion of the federal government’s current tobacco control efforts and fulfill the need for a government replacement for Bill S-13, the *Tobacco Industry Responsibility Act*.

Preventing Smuggling

- The export tax should be increased to \$12 per carton, with an equivalent amount for tobacco sticks and roll-your-own tobacco. This would further cut into the profit margin of anyone trying to smuggle back duty-free, Canadian-made cigarettes from the United States.
- The export tax exemption for cigarette shipments going to foreign (mainly U.S.) duty-free stores should be removed.
- Canada should entirely eliminate duty-free sales of tobacco, which provide access to low-priced tobacco and reduce government revenue. The European Union recently eliminated duty-free tobacco sales for travellers within the EU, establishing a precedent for other regions. Norway and Australia are also considering similar steps.⁵⁸ Canada should enter into bilateral agreements with the United States, the EU and other jurisdictions until a multilateral agreement can be reached.
- Clearly visible, province-specific tax markings should be printed on cigarette packs. This would address concerns about inter-provincial smuggling, and make it impossible to simply re-wrap smuggled packs with fraudulent ‘tax-paid’ tear tapes. This measure was announced in the 1999 federal budget and should be

⁵⁸ Bloomberg News, “Norway’s Finance Minister Considers Scrapping Tax-Free, DN Says,” Feb. 4, 1999.

implemented as soon as possible.

- Tax-paid markings on each cigarette should be implemented.
- Canada should support the development of the International Framework Convention on Tobacco Control, with provisions to address international tobacco smuggling.⁵⁹
- The RCMP should step up its enforcement activities against cigarette smuggling, and investigations should concentrate on major suppliers of contraband, rather than on small-time smugglers. Corporate involvement in smuggling should be one of the issues investigated by a Royal Commission of Inquiry into the tobacco industry, as recommended by the National Tobacco OR Kids Coalition.

Anticipated Benefits

- The recommended tax increases will result in a significant reduction in tobacco use, particularly among youth.
- Through a greatly enhanced tobacco control program, the government can expect to reduce smoking further and greatly reduce future health-care costs and economic losses. The Health Promotion Surtax (estimated at over \$90 million per year) and the federal tax revenues received as a result of illegal cigarette sales to children (estimated at over \$80 million per year) could provide a funding base for such a program; a portion of the increased revenue resulting from the tobacco tax increase could also be used.
- The recommended increases in low-tax provinces will generate about \$1.5 billion in incremental revenue for governments, split between provincial and federal governments. The federal treasury could anticipate \$750 million in additional revenues, with \$450 million for Ontario, \$250 million for Quebec and \$65 million for the Maritime provinces.

⁵⁹ In May, the 191 member governments of the World Health Assembly, the governing body of the World Health Organization, approved plans to begin work on drafting such a convention. See WHO press release: "World Health Assembly Paves Way for Framework Convention on Tobacco Control," May 24, 1999.