

Eye on the tobacco industry

An update on current Canadian tobacco industry activity
October-December 2008

Imperial Tobacco Canada Foundation cuts funding to the arts

A Foundation funded by Imperial Tobacco Canada (ITC) has cut its funding to the arts by more than 60% and further reduced its funding for post-secondary education institutions, as well as teaching hospitals and research into care for the aged.



The Foundation's Chairman of the Board, Benjamin Kemball, (who is also president and CEO of ITC) announced the changes Nov. 10th. The Foundation will replace its existing funding initiatives with 10 annual awards of \$50,000 each to help create "new works in the performing, visual and new media arts."¹ Starting in 2009, the Foundation will also give \$75,000 annually to a single "arts organization in recognition of extraordinary and sustained contribution to arts and culture in Canada."

The changes, which will redirect funding from a myriad of small grants to a few large ones, may be designed to garner more media attention for ITC, since a few large donations might be considered more newsworthy than dozens of small ones. *The Globe and Mail* reported that the Foundation gave \$1.7 million in arts funding in 2008.² Since 2005, the Foundation has provided almost \$10 million to arts organizations.

ITC has a long history of providing funding to

the arts in Canada. From 1971 to 2003, the du Maurier Arts Council donated \$60 million to arts groups, major jazz festivals and cultural events. It was disbanded in 2003 as a result of the federal ban on sponsorship promotions.

In 2005 Imperial's financial support for arts and culture was brought under the umbrella of its Foundation.



Tobacco companies have long sponsored the arts in order to associate their brands with popular events, such as the Montreal Jazz Festival. The Tobacco Act made the advertising of these sponsorships illegal.

Donations to the arts and cultural sector give the tobacco industry considerable visibility and legitimacy—many people attending an event will peruse the programme and see the names of sponsors. The donations have also provided tobacco companies access to a network of influential supporters in communities across Canada. ITC may have concluded, that in keeping with its Corporate Social Responsibility goals of trying to portray itself as a legitimate corporate citizen (just like any other normal company), it will get a greater public relations bang for its buck if it makes larger donations to fewer organizations.

These donations can play an important role in improving a company's image. The tobacco industry, after all, has a serious credibility problem. It is an industry that has lied about the risks of its products, lied about addiction, lied about its manipulation of nicotine, lied that its marketing has not targeted kids, and lied about the risks of second-hand smoke.³ ITC has also admitted its involvement in tobacco smuggling during the 1990s.⁴

British American Tobacco announces \$400 M profit in Canada

On October 30th, when it released its results for the first nine months of 2008, British American Tobacco (BAT) announced that Imperial Tobacco Canada had made an astounding \$400 million in profit.^{5 6} This represents a three per cent rise in profit over the same period in 2007, and was generated despite ITC's shrinking cigarette sales volumes.

ITC's market share shrank to 52%, due to fewer sales of its premium brand cigarettes, which was not offset by growth in the discount brand category. BAT says ITC grew its profits as a result of higher pricing, lower distribution costs and a stronger exchange rate.

Philip Morris International invests \$16 M in small Quebec City company

In November, Philip Morris International (PMI) invested nearly \$16 million in Medicago, a Quebec-based biotech company which hopes to produce an avian flu vaccine.

PMI used the money to purchase 45 million shares in Medicago, representing 49.8% of the company. In November, the offer received a 99.9% shareholder approval.

Medicago injects bacterium into tobacco plants and harvests the resulting protein secreted from the plant's cells. The proteins, known as H5N1

antigens, or virus-like particles, are then injected into people's bodies as a vaccine.⁷

Medicago said the investments will ensure that Phases 1 and 2 of the vaccine's clinical trials will be completed by 2010. The company hopes that the vaccine will be on the market in 2011.



Medicago uses plant cells to generate a Virus-Like Particle ("VLP") vaccine which can be used to fight Avian Flu.

The Globe and Mail reported that the partnership between the two companies began when PMI sent two of its top research and development staffers to the BioPartnering North America conference in February 2007 (the conference connects investors with biotech and pharmaceutical companies). The PMI people were there to find:

“adjacent technologies” for the tobacco plant — ventures that could benefit from PMI's decades of research while yielding a more wholesome product than a pack of Marlboros.⁸

Supporting this new use for tobacco also helps bolster PMI's attempts to portray itself as a socially responsible corporate citizen.

Retailer anti-contraband group blitzes Ontario with 6 regional public meetings

In an effort to drive up public support for government action on the contraband tobacco crisis, a national coalition made up mostly of cigarette retailers held a tour of six communities across Ontario in late November and early December.

The event held in Brantford Dec. 1 was moderated by Dave Bryans, president of the Canadian Convenience Stores Association. An RCMP constable also spoke at the event.



Bryans urged participants to phone their Members of Parliament and their Members of Provincial Parliament to lobby for tougher legislation that would crack down on those involved in illegal tobacco sales.

Fred Browning, one of the gas station owners in attendance, said authorities have not been doing enough to deal with the issue, which is costing legitimate retailers millions of dollars in tobacco sales and governments billions in tax dollars. *The Brantford Expositor* reported that Browning also called for civil disobedience:

“All in one day, we should take down the cover-ups” which provincial law has mandated retailers to put over their so-called cigarette power walls. “We’ve got to take action; we can’t just pussyfoot around.”⁹

In addition to Brantford, the National Coalition Against Contraband Tobacco held fora in Durham, York Region, Windsor, Ottawa and Cornwall.

Retailers call for tobacco tax cut

The Canadian Convenience Stores Association used the recent federal election campaign to ask federal candidates to state their position on contraband tobacco.

In a French press release the group said only the Bloc Québécois had provided a clear position.¹⁰

Michel Gadbois, the vice-president of the association, reiterated his call for a tobacco tax reduction.

It is not uncommon for tobacco companies to align themselves with other organizations in an attempt to validate controversial, self-serving policies, such as their desire to have tobacco taxes lowered.



Michel Gadbois

Tobacco companies in Canada have not recently called for a tobacco tax decrease because they know they have very little credibility with the public and decision makers. However, in recent months Gadbois has often called for tobacco taxes to be lowered.

Tobacco taxation is one of the most important health strategies used to lower consumption. A rollback would lead to more youth smoking and to higher consumption among current smokers. By calling for a rollback, Gadbois is doing the tobacco companies’ dirty work. It is something he is used to, having previously worked as a public relations representative for both Benson & Hedges (today Rothmans, Benson & Hedges) and Imasco (owner of Imperial Tobacco at the time).¹¹

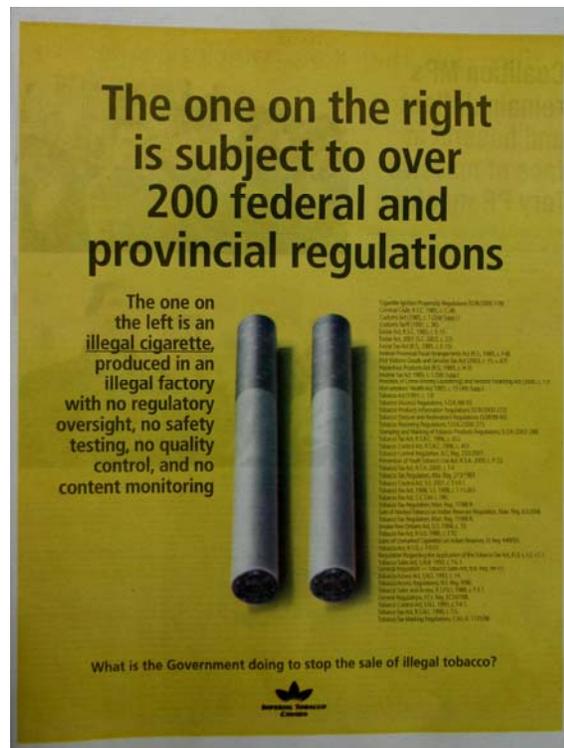
Imperial Tobacco Canada pressures government to act on contraband

Imperial Tobacco Canada (ITC) is ramping up its campaign to convince the federal government to act on contraband. In December the company ran full-page ads in *The Hill Times* newspaper, a publication read widely by politicians and staff on Parliament Hill.

The ads ask “What is the Government doing to stop the sale of illegal tobacco?” and show photographs of two identical looking cigarettes side-by-side. On the first page of the ad, readers are asked what the difference is between the two identical looking cigarettes. On the second page ITC answers the question stating that the legal cigarette “is subject to over 200 federal and provincial regulations,” while the contraband cigarette is “produced in an illegal factory with no regulatory oversight, no safety testing, no quality control, and no content monitoring.”

The ad implies that the contraband cigarette is less safe than the legal cigarette since the former does not comply with various federal and provincial regulations. In fact, both cigarettes are equally deadly. ITC regularly emphasize that contraband cigarettes are not as safe as their brands in their communications on the issue. ITC’s real concern, of course, is its loss of market share to the contraband market.

The one area where contraband cigarettes are potentially more dangerous than legal cigarettes is with regard to fire safety standards. Since October 2005, Health Canada regulations have required that all cigarettes manufactured in or imported for sale into Canada be fire safe. These requirements are expected to reduce the amount of deaths caused by cigarette-related fires. Prior to the regulations being enacted, cigarettes were the leading cause of fire-related deaths in Canada.



These full page ads paid for by Imperial Tobacco Canada appeared on pages 3 and 5 of the December 8, 2008 edition of *The Hill Times* newspaper published in Ottawa.

It is important to note, however, that 28 brands of legal cigarettes, sold by ITC and JTI-Macdonald, tested in 2007 did not meet the ignition propensity standards.¹²

In December, ITC ran the cigarette ads in major magazines, including *Time* and *People*. The snus ads were published numerous times in the *Edmonton Journal* and the *Ottawa Citizen* newspapers.

ILLEGAL TOBACCO INFORMER
Volume 01 - Number 03 - October 2008

Pressure mounts for effective action against illegal cigarette sales

In the face of overwhelming indications of the serious economic and social consequences of the illegal tobacco trade, pressure is mounting for effective action to curtail this illegal activity.

New information released in the past few months has hardened the emerging consensus that the illegal tobacco trade is having a corrosive effect on law and order and national health policies. Stakeholders on all sides of the tobacco issue now agree on the extent of the problem, the devastating consequences and the need for concerted government-led action to bring it under control.

GRC study
The 2008 GRC Research Dynamics study shows that on a national basis 33% of cigarettes purchased are illegal, compared to 22% in 2007. This translates into an estimated 11 billion illegal cigarettes sold in 2008 compared to 10 billion in 2007. The federal and provincial governments will lose about \$2.4 billion in tax revenues in 2008, up from an estimated \$1.6 billion in 2007.

The illegal tobacco problem is much more severe in the two most heavily populated provinces.

GROWTH OF ILLEGAL TOBACCO SALES
(% of reported tobacco purchases by consumers)

Province	2006	2007	2008
Alberta	2.0%	2.5%	3.2%
Manitoba	0.5%	0.8%	1.2%
Ontario	22.0%	32.7%	40.1%
Quebec	31.0%	31.0%	48.6%

Health groups encourage the authorities to continue their efforts to fight illegal tobacco and would like the problem to be resolved at its source.

Info-tac concern: "The Quebec and Canadian governments have adopted many significant anti-smoking measures over the past ten years. The efficiency of these measures is now being threatened by the illegal tobacco trade."

The illegal tobacco trade has also risen to the top of the agenda for two of Canada's leading business groups, the Canadian Chamber of Commerce and the Fédération des chambres de commerce du Québec. The two organizations sponsored a colloquium on illicit trade in Montréal in September. In October, they passed a resolution urging the federal and provincial governments "to take all necessary measures to stop the illegal tobacco trade."

Info-mac: "We're very concerned that the decline in smoking rates has now stopped," Rob Cunningham, Senior Policy Analyst with the Canadian Cancer Society told Canadian Press. "And the reason for that in our view is the widespread contraband problem that is providing access to inexpensive cigarettes."

Info-tac concern: "The Quebec and Canadian governments have adopted many significant anti-smoking measures over the past ten years. The efficiency of these measures is now being threatened by the illegal tobacco trade."

Statistics Canada
Shortly after the publication of these studies, Statistics Canada released figures showing that 2007 smoking rates among adult Canadians - including those who smoked either every day or occasionally as well as those who smoked on a daily basis - remained level with the rates in 2005 and 2006.

October 2008 edition of the *Illegal Tobacco INFORMER* produced by Imperial Tobacco Canada.

ITC has also produced three editions of a newsletter, called the *Illegal Tobacco INFORMER*. Imperial says the document, which is available on its website, and is e-mailed across Canada to journalists, columnists and editorial writers, will be published six times a year in English and French.

Imperial Tobacco Canada continues to advertise cigarettes and now snus

Canada's largest tobacco company used the last month of 2008 to start a fairly aggressive advertising campaign for its new du Maurier Activated Charcoal filtered cigarettes and its Swedish-style smokeless tobacco product, snus.

NEW
SMOOTHER TASTE BY DESIGN
ACTIVATED CHARCOAL FILTER FOR A SUPER SMOOTH TASTE

du MAURIER

SMOOTH TASTE FINE TASTE
AVAILABLE AT SELECT RETAIL LOCATIONS TODAY

Cigarettes are highly addictive.
La cigarette crée une très forte dépendance.

Time Magazine
Dec. 8, 2008 p49

The du Maurier cigarette ads are particularly worrisome to public health professionals because many high schools across Canada subscribe to *Time*. Therefore, it is possible that hundreds of thousands of Canadian youth under the age of 18 will see the ads in their school's library.

The ITC advertising blitz forced some public health organizations to call on all parliamentarians to act urgently to curb tobacco marketing. In a press release, Dr. Atul Kapur, President of Physicians for a Smoke-Free Canada, pointed out that Canada is one of only a handful of developed countries which has not yet implemented a comprehensive tobacco ad ban. A recent review by the World Health Organization showed that 83 nations have more

extensive advertising restrictions than Canada.¹³



In June 2007, the Supreme Court ruled in favour of the federal *Tobacco Act*, which limits but does not prohibit tobacco ads. At that time, then federal Health Minister Tony Clement said he would close loopholes in the law, but he did not act. During the recent federal election campaign, Prime Minister Stephen Harper promised to tighten tobacco advertising rules, but it is not clear how he will act or how quickly.

BAT fears ‘explosion in smuggling’ due to new tobacco advertising restrictions

Guidelines which call for a comprehensive ban on tobacco advertising and promotion were agreed to by Parties to the World Health Organization’s Framework Convention on Tobacco Control at a meeting in South Africa in November. The guidelines gave rise to fear mongering by British American Tobacco.

According to a BAT press release, Parties to the

WHO Convention that implement the guidelines risk exacerbating the tobacco smuggling crisis with which countries such as Canada are struggling. Paul Adams, BAT’s chief executive, said the guidelines:

“... are a potential recipe to vilify and marginalise legitimate, tax-paying, regulated businesses employing thousands of people, and risk forcing tobacco products ‘underground’ where the illicit, non-taxpaying, unregulated trade is already flourishing.”¹⁴

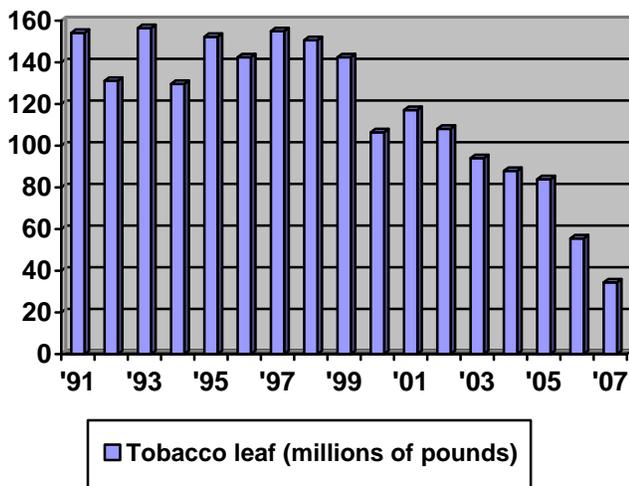
Adams also said that Canada, which has “become one the world’s most heavily regulating countries for tobacco,” should serve as a warning against over-regulation, since “hefty tobacco tax increases and now bans on product displays in shops,” have led to flatlined smoking rates in the previous three years. From 2005 to 2007, Health Canada reports that smoking prevalence in Canada for those aged 15 and over has sat at 19%.

Tobacco companies always fight effective tobacco control measures, so these comments should come as no surprise.

‘Dreadful agreement’ sets Ontario tobacco crop size at lowest level ever

Ontario tobacco farmers are hoping to sell 23.15 million pounds of flue-cured leaf at the upcoming annual auction in Delhi. The graph on the next page demonstrates the steady decline in leaf sales at auction from 1991 to 2007.

The current crop size is at its lowest level ever, down 28% from the 2007 crop size target of 32 million pounds, as Canada’s major tobacco manufacturers increasingly look overseas for much cheaper leaf to manufacture into cigarettes.



The recent crop deal was reached between the Ontario Flue-Cured Tobacco Growers' Marketing Board (OFCTGMB) and the members of the Tobacco Advisory Committee and was announced in October.¹⁵

The 23 million pound target represents only 8.5% of the allowed growable quota. It is expected that the 2008 crop will generate only \$45 million, which is \$28 million less than the 2007 crop, and about \$170 million less than what was brought in only five years ago. Tobacco farmers were offered a \$300 million buyout from the federal government recently, but that money has not yet flowed. And, they are still looking for more.

Board chair Linda Vandenriessche said she is now working on getting buyout money from Ontario, too. Vandenriessche called the 23 million pound tobacco leaf crop size agreement "dreadful."

Casa Cubana lobbies to stop growing wave of flavoured tobacco bans

Tobacco industry lobbyist Luc Martial has been busy lobbying politicians across Canada as more and more legislators express an interest in banning tobacco flavourings and the sale of

single cigarillos.

Martial sent a letter to all Nova Scotia Members of the Legislative Assembly in November urging them not to ban tobacco flavourings. In December he was quoted in the national newspaper *The Epoch Times* warning against restricting the availability of small cigars because, he claimed, that will push the products onto the black market.¹⁶ Martial often tells politicians to be concerned about teen alcohol and marijuana consumption when lobbying against cigarillo restrictions.



Luc Martial

Martial, who lobbies on behalf of Casa Cubana, an importer which sells the majority of cigarillos sold in Canada, has reason to worry as momentum to ban the candy flavours in these tobacco products continues to build across the country.

In December, Ontario passed legislation to ban flavourings in cigarillos and British Columbia, Prince Edward Island and Nova Scotia are considering action. At the national level, Prime Minister Stephen Harper made an election promise to ban the use of flavour and additives in all tobacco products that would appeal to children and to require that cigarillos be sold in packages of no fewer than 20 units, making them less affordable for youth.

In the 39th Parliament, NDP MP Judy Wasylycia-Leis proposed a Private Member's Bill which, if passed, would have required the Government of Canada to take similar action.

GRE's charitable foundation goes national

Grand River Enterprises (GRE), the largest First Nations-owned and operated cigarette manufacturer in Canada, is expanding the reach of its philanthropic organization nationally.

The Dreamcatcher Fund, which began with a \$2-million endowment fund from GRE in 2004, plans to increase its funding sources as it reaches out to Aboriginal people across the country. Up until recently, GRE has been the primary funder of the Fund.

The Fund is used by GRE as a Corporate Social Responsibility initiative, intended to legitimize its existence and show community members that is a good corporate citizen.

The Fund has received endorsements and support from well-known First Nations people (including Assembly of First Nations National Chief Phil Fontaine, former NHL Coach Ted Nolan, and Corner Gas television star Lorne Cardinal), as well as non-First Nations people, including former Liberal Prime Minister of Canada Paul Martin.

The money the fund distributes is used primarily to help young people in education, arts and culture, and sports and recreation. It also has been used to help First Nation communities build better health infrastructure.¹⁷ The fund usually donates about \$2 million to various initiatives and causes.

Dreamcatcher Fund

is helping Amy Harriman's Olympic sized Dreams come true!
Become part of making aboriginal children's dreams come true.

The Dreamcatcher Fund invites Corporate Canada to assist Aboriginal youth, communities and elders in building a better future.

Please make your donation today.

Contact the Dreamcatcher Fund at:
P.O. Box 659,
Ohsweken, ON
N0A 1M0
1.866.508.6795
info@dreamcatcherfund.com

www.dreamcatcherfund.com

This full-page ad by the Dreamcatcher Fund, an organization largely funded by the Grand River Enterprises (GRE) tobacco company, was published in the Aboriginal Business magazine's Summer/Fall 2008 edition.

The ad is but one example of the many ways GRE tries to convince community members of its 'corporate social responsibility'.

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