

**Application to Appear before the Standing Committee
on Finance for the Pre-Budget Consultations in Advance
of the 2019 Budget**

By: The Small Guys Cigar Group

SMALL GUYS CIGAR GROUP

The Small Guys Cigar group is a coalition of three Traditional Cigar companies: Havana House Cigar & Tobacco Merchants Ltd.; Scandinavian Tobacco Group Canada, and; House of Horvath Inc. Together these companies are spokespersons for an industry that represents less than 1/3rd of 1% of the total tobacco market in Canada. SGCG advocates for cigar related policy issues at the federal and provincial levels, and has been a cooperative partner of government as the following have been mandated and implemented on cigar products: “tobacco flavour ban” (2016); FET increase (2017); Reporting amendment (2017); and excise tax stamp changes.

ISSUE

The cigar industry in Canada is made up of a number of importers, distributors, manufacturers and retailers – many of which are small businesses that have been extremely cooperative with the federal government as it has implemented a number of changes to the flavouring, packaging, taxation and labelling requirements in the country. Over the years, these small business have been unfairly captured by legislation, regulation and policies that are meant to impact the relevance of “big tobacco” cigarette companies and cigarette incidence rates at the public health level. The latest increase to the excise tax on cigars (in Budget 2018) has seen many of the traditional customers of these small business cigar companies be diverted to the illicit market, and online retailers based in the U.S. The current ad valorem rate applied to cigars in Canada is now at 84% making it one of the highest in the world.

REQUEST

The following are the requests of Finance Canada as they consider implementing a tax model on cigars that will support hard working small business tobacconists while protecting public health concerns around tobacco incidence rates:

1. Implement a freeze on any increase to the ad velorum tax rate on cigar products
2. Roll back the ad velorum tax rate on cigar products over time in recognition of limited impact on public health
3. Replace the ad velorum tax model on cigars with another model
4. Consider taxing different classes of cigar products differently
5. Provide more oversight of online sales and the shipping of those packages across the Canadian border

ENSURING CANADA’S SMALL BUSINESS COMPETITIVENESS IN THE SPECIALTY TOBACCO INDUSTRY

The Canadian cigar industry feel that they have been unfairly treated by recent taxation policy. The impact of the rate is pushing people to make use of online retailers based in the U.S. who are not subject to the same tax rates, and whose packages often pass the border without inspection.

The feeling that this industry should be considered differently by tobacco taxation policy is substantiated by the following points:

- In February 2017 Health Canada published *The Future of Tobacco Control*, which sets an incidence target for tobacco products of less than 5% by 2035.

- Cigar incidence is 3.5% well below Health Canada's 2035 target according to a 2015 Propel report.
- Cigarette incidence is > 17%, while Cannabis incidence is > 27%.
- Cigars are the smallest portion of tobacco sector revenue.
- Cigar tax revenue represents only 1.2% of cigarette tax revenue for government – future increases will only harm small business without materially affecting government revenues
- Cigars are one of the only products tax by an ad valorem model.
- The current ad valorem rate applied to cigars in Canada is now at 84% making it one of the highest in the world.
- Cigars are less prevalent and less harmful than cigarettes, and yet are taxed more
- Consumers are able to import cigars from foreign jurisdictions without penalty (50 cigars per person) which often last the typical consumer 1-2 years
- In 2015 the government removed Dominican Republic and Cuba from the General Preferred Tariff list of countries. Now their goods (including many of the cigars that are imported and retailed in Canada by small business tobacconists) attract an additional 8% duty.
- Cigar products are almost exclusively consumed by older adults due to cost and lifestyle associations (unlike cigarettes)
- Cigars are retailed by licensed specialty tobacconists (63 small businesses in Ontario) who have demonstrated exemplary age verification practices over the years (substantiated by data available from Ontario Public Health)
- Consumers can buy cigars online without limitation and are increasingly doing so
- The ad valorem takes a simplistic view of the diverse cigar product categories, and there should be different rates applied to different types of cigar products

More statistics and economic impact data will be shared at the time of the FINA presentation.

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