



Taking Action on Tobacco

**A Brief Submitted to the House of Commons Standing
Committee on Finance for the Pre-Budget Consultations
in Advance of the 2019 Budget**

**Ontario Campaign for Action on Tobacco
August 3, 2018**

List of Recommendations

The Ontario Campaign for Action on Tobacco recommends

1. That the federal government implement a cost recovery fee on the tobacco industry to recover the entire annual cost of the federal tobacco control strategy, which would generate approximately \$60 million per year in incremental revenue for the government.
2. That the federal government increase tobacco taxes.

Contact:
Michael Perley
Director
Ontario Campaign for Action on Tobacco
150 Bloor Street West, Suite 900
Toronto, Ontario M5S 3C1
416-340-2992
Michael.Perley@oma.org

The Tobacco Epidemic

Tobacco products are the leading preventable cause of disease and death in Canada, causing 45,000 deaths each year. Tobacco products cause cancer, heart attacks, stroke, emphysema, and many other diseases. Secondhand smoke is harmful, and causes lung cancer and heart disease in otherwise healthy non-smokers. There are still 5 million Canadians who smoke, representing a current smoking prevalence of 16%.¹ Tremendous progress has been made to reduce tobacco use, but an enormous amount of work remains to be done to achieve the government's objective of under 5% tobacco use by 2035.

Tobacco is Damaging for Economic Competitiveness

Each year in Canada tobacco causes \$6.5 billion in health care costs, and more than \$16 billion in total economic costs. These economic costs include health care costs, lost productivity, fires, and other costs.² Worldwide, tobacco costs the global economy more than \$1 trillion per year.³

The Conference Board of Canada has found that each daily smoker in Canada, on average, costs an employer \$4,256 per year, due to increased smoke breaks and absenteeism.⁴ Smokers are more likely to get sick than non-smokers and to take longer to recover from illnesses, and thus more likely to be absent from work.

Reducing tobacco use thus provides substantial benefits not only from a health perspective, but also for employers and the Canadian economy as a whole.

Recommendation 1 – Cost recovery fee on tobacco industry

The federal government should implement a cost recovery fee on the tobacco industry to recover the entire annual cost of the federal tobacco control strategy, which would generate approximately \$60 million per year in incremental revenue for the government.

On May 31, 2018, Minister of Health Ginette Petitpas Taylor announced a strengthened federal tobacco control strategy. An increase in funding for the strategy is being phased-in, and will reach a

¹ Canadian Community Health Survey, 2017.

² Conference Board of Canada, "The Costs of Tobacco Use in Canada, 2012" 2017.

<https://www.conferenceboard.ca/e-library/abstract.aspx?did=9185>

³ U.S. National Cancer Institute and World Health Organization. *The Economics of Tobacco and Tobacco Control*. National Cancer Institute Tobacco Control Monograph 21. NIH Publication No. 16-CA-8029A. Bethesda, MD: U.S. Department of Health and Human Services, National Institutes of Health, National Cancer Institute; and Geneva, CH: World Health Organization; 2016.

<https://cancercontrol.cancer.gov/brp/tcrb/monographs/21/index.html>

⁴ Conference Board of Canada, "Briefing 3, Smoking Cessation and the workplace: Benefits of Workplace Programs" 2013.

https://www.conferenceboard.ca/temp/2517f525-b771-4466-824c-16ed071f3d1b/14-175_SmokingCessation-Brief3_CASHC.pdf

new total of about \$60 million per year by 2020-21. This funding includes some funding for Public Safety Canada and the RCMP.

The tobacco industry has caused the tobacco epidemic and should be responsible for the federal government's annual costs of dealing with the epidemic. This is based on the principle of polluter pays. A cost recovery fee is a means to hold the tobacco industry accountable.

In the US, the Food and Drug Administration (FDA) has had in place since 2009 a cost recovery fee on the tobacco industry to recover the FDA's tobacco control budget. In fiscal year 2018-19, the FDA's tobacco control budget is US\$712 million (C\$930 million).⁵ US tobacco companies pay this fee to the FDA based on their market share.

In Canada, on July 12, 2018, the federal government announced for consultation an Annual Regulatory Fee on the cannabis industry. This fee would collect a total of \$82 million in fiscal 2018-19, to be allocated among cannabis companies on the basis of market share as determined by revenue. The government estimates that a fee equal to 2.3% of company revenue to recover government costs; there would be some ramping up, with Health Canada estimating that it could "recover as much as 100% of its annual regulatory costs by 2020-21".⁶

The regulatory cost base for the cannabis Annual Regulatory Fee is projected to increase from \$82 million in 2018-19, to \$90 million in 2019-2020, to \$99 million in 2020-21 to \$112 million in 2021-22. The regulatory cost base includes: licensing; compliance, enforcement and inspections; program management and oversight; public education and awareness. There would also be three other federal cannabis-related fees: Application Screening Fee; Import/Export Permit Fee; and Security Screening Fee.

The Health Canada consultation document for the cannabis fees notes: "Financial metrics are used in the administration of fees in a number of programs. For instance, Health Canada charges an annual fee for registered pest control products based on revenues and Parks Canada charges fees based on revenues from businesses that operate within certain park boundaries. The National Energy Board recovers its operating costs from the companies it regulates based on the volume of oil, gas and electricity that they transport."⁷

The cannabis cost recovery fee provides an example and a rationale for a cost recovery fee on the tobacco industry.

A tobacco cost recovery fee should be based on market share. Thus if Imperial Tobacco Canada Ltd. had a market share of 50%, then the company would pay a fee for that year of \$30 million (50% of \$60 million).

⁵ Exchange rate: US\$1.00 = C\$1.3063

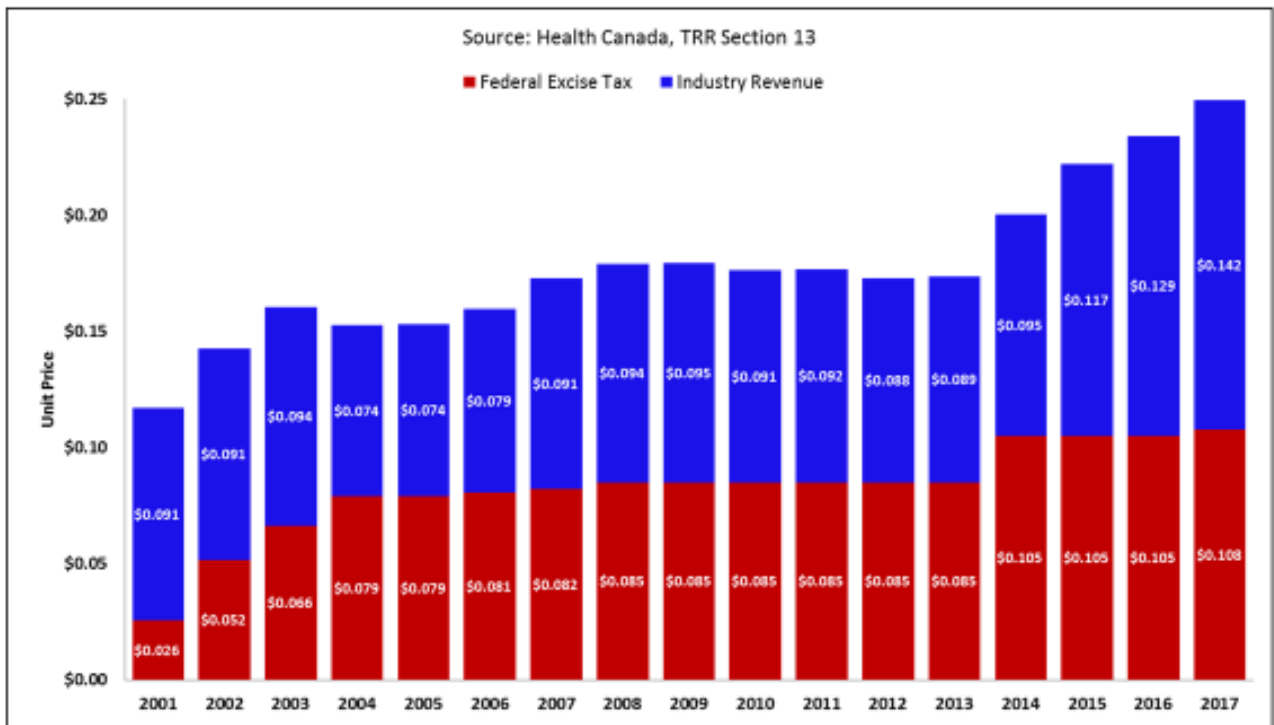
⁶ Health Canada, "Proposed Approach to Cost Recovery for the Regulation of Cannabis: For Consultation" released July 12, 2018, p.5.

<https://www.canada.ca/content/dam/hc-sc/documents/programs/consultation-proposed-approach-cost-recovery-cannabis/cost-recovery-consultation-eng.pdf>

⁷ Ibid, p.10.

Over the last four years, 2014-2017 inclusive, the tobacco industry has implemented windfall increases in its own prices, as shown in the graph that follows. These price increases have resulted in \$1 billion more per year in annual revenue for the tobacco industry. In this context, there is no doubt that the industry can afford to pay \$60 million per year as a cost recovery fee, and there is no doubt that the industry should pay such a fee.

Wholesale Unit Price of Cigarettes in Canada, 2001-2017



In the graph, average tobacco industry prices per cigarette net of tax are shown in blue. As indicated, there have been significant tobacco industry price increases for the years 2014-2017. The data are from tobacco industry reports to Health Canada pursuant to the federal Tobacco Reporting Regulations (TRR).

Recommendation 2 – Increase tobacco taxes

The federal government should increase tobacco taxes.

Increasing tobacco taxes is the most effective strategy to reduce smoking, especially among teenagers who have less disposable income. An after-inflation increase in tobacco prices of 10%

leads to a decrease in consumption of 4%, and even more among youth. The importance of tobacco taxes is recognized by the World Bank and by the World Health Organization.

Higher tobacco taxes are a win-win, reducing tobacco use and increasing government revenue. Federal tobacco taxes are especially important because they apply Canada-wide.

The tobacco industry is in no credible position to object to the federal government increasing tobacco taxes given that the tobacco industry itself has in recent years increased its own prices very substantially.

Higher tobacco taxes should be complemented by additional contraband prevention measures, including (1) blocking the supply of raw materials (eg leaf tobacco, filter material, cigarette paper) to unlicensed, illegal factories; (2) persuading US authorities to shut down illegal factories operating on the US side of the Akwesasne reserve; (3) establishing primary and secondary border checkpoints near Cornwall, instead of the current government plan to have a Canadian customs checkpoint only on the US side of the border.

The Ontario Campaign for Action on Tobacco

The Ontario Campaign for Action on Tobacco (OCAT) was founded in 1992 and promotes comprehensive tobacco control in Ontario.