



Written Submission for the Pre-Budget Consultations in Advance of the Upcoming Federal Budget

August 2020

Recommendations

Recommendation 1

We recommend that the Government of Canada work with the Government of Ontario to take action against contraband tobacco in the province, where the highest rates exist and where the federal government's tobacco control measures are the most undermined.

Introduction

Smokers and non-smokers alike have been widely impacted by the economic shutdown caused by the COVID-19 pandemic. According to Statistics Canada, 5.5 million Canadian workers were affected from February to April 2020, with a reduction to 3.1 million Canadians by the end of June.¹ While the reduction shows that some Canadians are getting back to work, millions are still unemployed and millions more have lost income and savings. Overall, the buying power of millions of Canadians has been reduced due to the COVID-19 pandemic.

Concerning contraband tobacco in Canada, this situation raises both opportunities and large risks for the provincial and federal governments. Prior to the COVID-19 pandemic, one in three cigarettes purchased in Ontario were illegal, accounting for a combined federal-provincial excise tax loss of over \$1 billion annually. The Royal Canadian Mounted Police (RCMP) estimate there are around 175 organized crime groups involved in the illicit trade, who make millions of dollars almost daily from contraband tobacco. They use these proceeds of crime to fund other illicit activities, such as the sale and distribution of illegal cannabis, cocaine, fentanyl, guns and human trafficking.

Evidence shows that contraband tobacco is sold and distributed in every Canadian province. Due to the growing prevalence of contraband tobacco, individual provinces such as Manitoba, Quebec and New Brunswick have taken specific actions to combat the illicit trade. This is due to the realization that the organized crime groups involved in contraband tobacco are also involved in the sale and distribution of drugs, guns and human trafficking. It is also due to the realization that the billions of dollars lost annually to the illicit trade could be used for other provincial expenditures.

Contraband tobacco is one of the most lucrative illicit trades. For example, a 400% profit can be made off of illegal cigarettes, compared to a 50% profit for cocaine and 100% profit for cannabis at the street level. It has been proven that these large sums of profit for organized crime groups also fuels money laundering schemes in Ontario and beyond. Due to this, provinces have found that enforcing contraband tobacco is one of the few public safety investments that will increase overall government revenues.

While other provinces have made the investments in combatting contraband tobacco, Ontario continues to lag behind. The absence of enforcement in the province has created a vacuum, allowing for more organized crime groups to operate and make millions of dollars off the illicit trade. Ontario is the epicentre of contraband tobacco in Canada, and with the federal government's support it can ensure that it begins to take targeted action.

Stopping the Flow of Contraband Tobacco

While manufacturing of illegal cigarettes takes place in both Ontario and Quebec, it is predominantly centred in Ontario. Factories are able to churn out a million cigarettes per minute through some of the most sophisticated equipment on the market. The contraband tobacco market has been allowed to become efficient and organized because of decades of inaction by both the federal and provincial governments.

Quebec continues to lead the way in contraband tobacco enforcement. Prior to 2009, Quebec had the same contraband tobacco issue as Ontario, where one in three cigarettes sold were illegal. This was

¹ <https://www150.statcan.gc.ca/n1/daily-quotidien/200710/dq200710a-eng.htm?HPA=1&indid=3587-2&indgeo=0>

funding organized crime activity across the province and taking millions away from Quebec's taxation system. In 2009, the Government of Quebec passed *Bill 59: An Act to amend the Tobacco Tax Act* and other legislative provisions primarily to counter tobacco smuggling². Due to the actions taken through Bill 59, Quebec was able to reduce their rate of contraband tobacco from approximately 33% to roughly 12% within two years.³ This also allowed the government to put millions of dollars back into their public treasury within a two-year timespan.

Bill 59 took three specific actions which continue to be in place today:

1. It allowed all police officers in Quebec to conduct full contraband tobacco investigations.
2. It created *Accès Tabac*, a program to fund ongoing contraband tobacco investigations.
3. It created a 54-member Contraband Tobacco Enforcement Team at the *Sûreté du Québec*.

In Quebec's 2020 budget, they listed that the government spent \$14.4 million on the program, which yielded a return of \$206 million.⁴ This equals a return of over \$14 for every one dollar invested by the Government of Quebec.

The Quebec model and its success continue to show the path forward for Ontario to take effective action against contraband tobacco. Furthermore, the COVID-19 pandemic has temporarily transformed the contraband tobacco market, opening up an opportunity and a risk for the federal and Ontario governments. Due to the lockdown of reservations, primarily in southwestern Ontario, contraband tobacco rates have fallen in Ontario due to consumers being locked out from the illicit product. However, organized crime groups continue to operate their illicit trade routes, distributing millions of illegal cigarettes across Ontario and Canada.

The opportunity for the governments of Canada and Ontario to take action has been highlighted by the current situation. The federal Department of Finance and provincial Ministry of Finance are able to use the past couple months as a case study for what excise taxes might appear like if action was taken. Smokers of illegal cigarettes who previously drove onto reservations have either been forced to quit or begin purchasing the legal product. Circumstances in both cases have inadvertently allowed for Canadian tobacco control measures to take effect, which are not currently in place for contraband tobacco.

The risk for both levels of government is during the recovery phase. As millions of Canadians find themselves unemployed and millions more see a reduction in their overall buying power, there is a large risk that the contraband tobacco market will see an upsurge once reservations end their lockdowns. Smokers of the legal product will no longer be able to afford the excise taxes and will either quit smoking or begin smoking illegal cigarettes. It is likely that a good portion will convert to the illicit market, which will both undermine tobacco control measures and further increase the loss of excise taxes.

Through Canada's Tobacco Strategy, the Government of Canada has set itself an ambitious goal of driving down smoking rates to less than 5% by 2035. About 15% of the population continue to smoke in Canada, with 33% in Ontario smoking illegal cigarettes. While we commend the government's plan, we

² <http://www.assnat.qc.ca/en/travaux-parlementaires/projets-loi/projet-loi-59-39-1.html>

³ http://www.budget.finances.gouv.qc.ca/budget/2019-2020/en/documents/AdditionalInfo_1920.pdf

⁴ http://www.budget.finances.gouv.qc.ca/budget/2020-2021/en/documents/Budget2021_AdditionalInfo.pdf

continue to be aware that the goals set out in the strategy cannot be achieved without acting against contraband tobacco. The illicit market ignores all tobacco control measures including selling to minors, plain packaging regulations and health warnings. As a significant portion of the Canadian population is smoking illegal cigarettes, the government will be hard pressed to get close to 5% by 2035.

While Quebec has seen widespread success in combatting contraband tobacco, Ontario continues to be the epicentre of the illegal trade. The issue continues to be inter-provincial and one that the national government must address. As a starting point, the Government of Canada must look to work with the Government of Ontario in taking action against illegal cigarettes. This action will start combatting the illicit market, enforcing tobacco control measures and taking away millions of dollars from organized criminals. By working together, both governments can ensure that Ontario is no longer the epicentre of Canada's illicit tobacco trade.

Recommendation

We recommend that the Government of Canada work with the Government of Ontario to take action against contraband tobacco in the province, where the highest rates exist and where the federal government's tobacco control measures are the most undermined.

About

The National Coalition Against Contraband Tobacco is a Canadian advocacy group formed with the participation of businesses, law and order organizations and individuals concerned about the growing danger of contraband cigarettes. Our members share the goals of working together to educate people and urge government to take quick action to stop this growing threat. To learn more, please visit www.stopcontrabandtobacco.ca.