

PROTECTING CANADIANS FROM CHEAP CIGARETTES

Pre-Budget Consultation
August 2017

PHYSICIANS FOR A SMOKE-FREE CANADA
COALITION QUÉBÉCOISE POUR LE CONTRÔLE DU TABAC

The federal government should protect public health from low-priced cigarettes by:

1) Raising tobacco taxes

Raising the price of cheap cigarettes by increasing tobacco taxes is an obvious policy option and an approach fully supported by evidence and policy consensus.

Recommendation 1: Immediately increase the federal tobacco tax rate (or work with the provinces to collectively raise taxes) to ensure that the minimum combined federal and provincial tax on cigarettes in **Canada is at least \$0.40 a cigarette** (\$80 per carton). This could also be achieved through the return to differential federal tobacco taxes across Canada.

2) Embedding health in tobacco tax policy.

There is currently no requirement that the health impact of tobacco tax rates be considered during the setting of tobacco tax policy, and no evidence of any consultation between Finance Canada and Health Canada on this issue. Finance Canada has not consulted meaningfully with health stakeholders or experts on tobacco tax rates.

Recommendation 2A: Amend excise or tobacco tax laws to ensure that health impact is considered when setting tobacco tax levels.

Recommendation 2B: Require Finance Ministries to consult with health ministers when setting tobacco tax levels.

3) Abolishing price manipulation and other practices which undermine tobacco taxes.

Standardizing the pricing of tobacco products could remove price competition altogether, and would protect the public from this form of tobacco promotion. Combined with tax increases, standardized pricing can internalize the public costs associated with smoking and address the excessive profit-taking of the tobacco industry.

Recommendation 3A: Standardize the local price for cigarettes and other combustible tobacco products within each jurisdiction (while allowing for provincial or municipal taxes or levies). This should preferably be implemented to coincide with the introduction of plain and standardized packaging.

Recommendation 3B: Implement a surveillance system for cigarette pricing at the local level (such as mandatory sales monitoring machines in each retail store), and make this data available for public health analysis.

4) Using new tax revenues to address barriers to good tobacco tax policies.

The solution to the problem of illicit tobacco in Canada requires constructive engagement between Indigenous communities and other Canadian governments, and the willingness to invest in a solution to the conditions which fuel illicit sales.

Recommendation 4A: Allocate the additional revenues from the proposed tax increase (estimated at more than \$2 billion) to programs aimed at phasing out contraband supply, reducing tobacco use and to ensuring a positive impact on social and health equity.

Recommendation 4B: Work with retailers and others to develop alternative business models, economic incentives or other rewards which could be used to engage this sector in supporting tobacco reduction efforts.

5) Implementing the polluter pay principle

Regulatory charges imposed on manufacturers have the potential to ensure that the costs of tobacco control are internalized into the price of cigarettes. Examples of this are found in at least two other OECD countries – the United States [1] and France [2].

Recommendation 5: Implement a regulatory charge on tobacco manufacturers of \$200 million, with the revenues allocated to supporting a comprehensive tobacco control regulatory scheme in Canada, including support for activities by other levels of government and civil society partners.

Adjusting for inflation, this would represent a 50% increase to the federal tobacco control funding commitment made by Finance Minister Paul Martin, in April 2001.

Monies raised from this regulatory charge could be used to honour the government's commitment to reduce smoking prevalence to less than 5% prevalence by 2035.

Tobacco taxes are an essential public health tool

Tobacco use is a leading preventable cause of death and disease in Canada, responsible for about one in five deaths and one third of full-day hospitalization costs. [3] It is the greatest risk factor for the three first causes of death in Canada: cancer, cardiovascular disease and respiratory disease. [4]

Among the most powerful policies that governments can adopt to reduce smoking is to raise the price of tobacco products by implementing regular increases in tobacco taxes. Children, adolescents and those with low income are most price-sensitive, and so benefit even more from such policies. Higher tobacco taxes will help address disparities in smoking rates between lower and upper income Canadians.

The federal government has allowed tobacco companies to undermine tobacco tax policy.

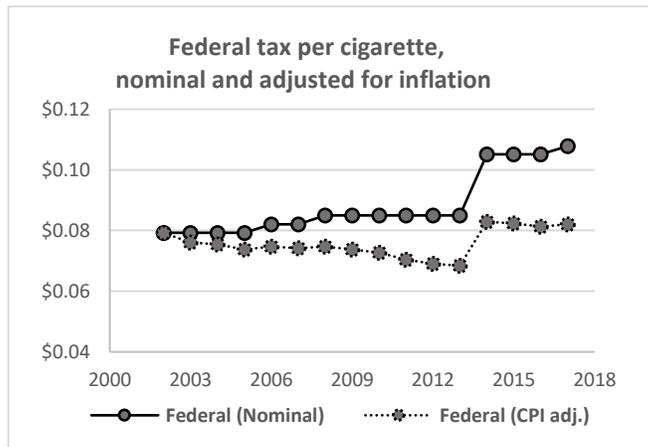
The current low-tax policy of the federal government is rooted in the tax-cuts of the 1990s. Subsequent tobacco industry campaigns raised fears about contraband cigarettes to generate the impression that illicit tobacco sales are higher than they actually are. Researchers who are not associated with the industry conclude that contraband sales are a problem – but not one that is disproportionate to illegal sales in other commodities or to tobacco sales in other countries. [5] [6] [7]



In recent months a leaked internal document from Imperial Tobacco Canada’s parent, British American Tobacco unambiguously expressed this company’s bad-faith efforts to fan fears of contraband: “Keeping the contraband issue alive” was a way to block regulations and tax increases. [8]

Federal tobacco taxes have barely kept up with inflation.

The real cost of cigarettes has barely increased in the past two decades even though tax increases since 1994 have raised the nominal tax rate for cigarettes across Canada beyond that in 1993 value, even for the lowest-taxed province (Quebec). The federal tobacco tax has increased over the past 17 years by almost 40% (from 7.9 cents per cigarette to 10.8 cents), but the increase in federal taxes over the past 15 years is less than one-third of a cent per cigarette once adjusted for inflation.



The absence of a health-focused tax and price policies has made cigarettes more affordable. The International Tobacco Control Project found that Canada was one of only two OECD countries surveyed where affordability had increased between 2002 and 2010. [9]

Low taxes have allowed the industry to increase its profits.

Information provided by Ontario retailers has revealed that since the summer of 2015, each of the major tobacco companies has raised prices. Over this 22-month period the price increases on most brands, as shown in Chart 2, have exceeded \$6 per carton.

National data prior to 2017 was released by Health Canada and reveals that industry price increases resulted in additional revenues of \$1 billion in 2015 and 2016. [10] Had the resulting market price increase resulted from taxes, this money could have been put to public purpose (or returned to poor smokers in the form of income or social programs).

Manufacturers' price increases will not benefit health as much as increased taxes because they are designed to minimize the impact on product sales. Industry prices are implemented gradually over months and thus avoid the traditional "shock" of a sudden and substantial tax increase. Moreover, the industry can be selective about which (higher priced) brands will be used to generate new revenues and which (lower priced) ones will be used to maintain price-sensitive customers.

Price increases by major tobacco companies in Ontario, Aug 2015 to June 2017. [11]

	Price category	August 2015	December 2015- Jan 2016	May-June 2016	December 2016	June 2017	Total
ITL- Du Maurier	<i>Premium</i>	\$1.00	\$1.00	\$1.00	\$1.25	\$2.00	\$6.25
ITL-Matinée	<i>Mid-priced</i>	\$2.00	\$1.50	\$1.50	\$1.50	\$2.00	\$8.50
ITL-Pall Mall Red	<i>Discount</i>	\$1.00	\$1.50	\$0	\$1.50	\$2.00	\$6.00
RBH-Craven A	<i>Premium</i>	\$2.00	\$1.50	\$1.50	\$1.00	\$2.00	\$8.00
RBH-Accord	<i>Mid-priced</i>	\$1.50	\$1.00	\$0	\$1.00	\$2.00	\$5.50
RBH-Philip Morris	<i>Discount</i>	\$1.50	\$1.50	\$1.50	\$0	\$2.00	\$6.50
JTIM-Export A	<i>Premium</i>	\$1.00	\$1.00	\$1.00	\$1.00	\$1.50	\$5.50
JTIM-Vantage	<i>Mid-priced</i>	\$1.00	\$1.50	\$1.00	\$1.00	\$1.00	\$5.50
JTIM-Liggett Ducat	<i>Discount</i>	\$1.50	\$1.50	\$1.50	\$0	\$2.00	\$6.50

Tobacco companies manipulate the price of tobacco products to keep the price of some brands artificially low.

Until a little more than a decade ago, tobacco companies sold each of their brands of manufactured cigarettes at the same price, and also at the same price as their competitors. More recently, they have segmented their market into different price categories and have transformed their marketing and distribution to better control the prices at which retailers sell their cigarettes.

By doing this, the companies can promote lower-priced cigarettes to smokers who might be encouraged to quit if prices go too high, and can make up lost revenues by taking a higher profit level on the premium cigarettes they sell to smokers who are less motivated by price.

Tobacco companies also use price promotions to overcome the impact of taxes. Unlike taxes, which are a "one size fits all" approach applied equally across all brands, these price discounts can be targeted to specific groups of people, to selected neighbourhoods or for specified periods of time.

On November 26, 2016 Quebec became the first province to forbid manufacturers from “offering rebates, gratuities or any other form of benefit related to the sale or the retail price of a tobacco product”. [12] This provision will not end price promotions, however, as it does not require the companies to charge each retailer the same price or to maintain stable prices from one order to the next. For example, the companies could legally change their prices from one week to the next, and can select which retailers they sell to in what period and at what price.

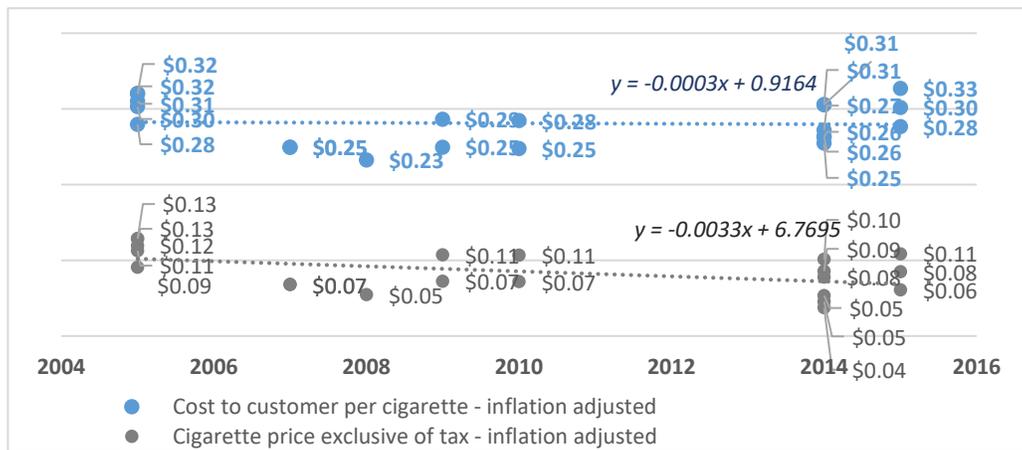
Price manipulation erodes the health benefits of tobacco taxes

Although data on cigarette prices in differing communities and neighbourhoods is routinely collected by tobacco companies and used for market research, there is no equivalent source of information to assist independent research on the public health impact of recent price differentiation and increased price competition in Canada. In the absence of robust data, archival photographs of retail displays of cigarettes can be used to monitor recent price changes. [13]

These show only a modest increase in the price of discount cigarettes charged to customers, and a decrease in the non-tax portion of the cigarette price. Once inflation has been taken into consideration, the cost of the cheapest brand available to smokers in Ontario and Quebec declined slightly between 2005 and 2014/2016. [13]

The time has come for federal authorities to step in and regulate cigarette prices in Canada’s largest markets and across the country.

Lowest displayed price per cigarette and non-tax portion of price, (inflation adjusted, 2002=\$1). Quebec 2005-2016 [13]



References

[1] US Food and Drug Administration, "Tobacco Products. User Fees.," [Online].

- [2] Government of France , "LOI n° 2016-1827 du 23 décembre 2016 de financement de la sécurité sociale pour 2017 (1)".
- [3] Statistics Canada, "Smokers' use of acute care hospitals—A prospective study," 2009.
- [4] Coalition québécoise pour le contrôle du tabac, Fact Sheet, June 2015.
- [5] E. Guindon et al. , "Levels and trends in cigarette contraband in Canada.," *Tobacco Control.*, 2016.
- [6] Finances Québec. , "Tax evasion in Quebec - Its sources and extent. Economic, fiscal and budget studies," 2005.
- [7] Statistics Canada, "The underground economy in Canada, 2013.," *The Daily.* , June 20, 2016.
- [8] British American Tobacco , "CORA AIT Strategy. Raising Public Awareness & Demanding Government Action," August 2012..
- [9] International Tobacco Control Evaluation Project , "Tobacco Price and Taxation," 2014.
- [10] Health Canada, "Poster presented at the National Forum on the Future of Tobacco Control," 2017.
- [11] Information provided by Ontario retailers, 2017.
- [12] Government of Quebec, "Tobacco Control Act, Chapter L-6.2".
- [13] Physicians for a Smoke-Free Canada, "Cigarette prices advertised at retail venues in Ontario and Quebec, 2005-2015."