



Tobacco in Canada: An Inconvenient Truth

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Ladies and gentlemen, good afternoon. Thank you for that kind introduction.

I am delighted to be here to speak to all of you today. This event is likely one of the last times I will speak about the Canadian tobacco industry in my capacity as president of Imperial Tobacco Canada. I have accepted a new position within the British American Tobacco group in South America and head south – very far south - in August to begin my new role.

I will miss Canada, particularly Montreal. I will even miss the winters. I only hope to find some good snowshoeing and cross country ski trails in Chili!

The last time I spoke to this group was two years ago. In that speech, I spoke about the issues that face a 21st century tobacco company. I spoke about our fervent belief that kids should not smoke. I outlined our efforts in tobacco harm reduction. And I addressed the emergence of an illegal tobacco trade and the need for the government to take action.

Two years later, I would have liked to close my tenure here in Canada by coming here today to speak to you about the great things that have been done to stop the sale of illegal tobacco in Canada.

I wish I could tell you that the federal and provincial governments' recognition of the problem and their courage and resolve to take action.

I wish I could tell you that illegal tobacco sales in Canada have decreased and criminals have been put out of business. How governments have collected taxes. How kids have been protected.

Unfortunately I cannot.

What I will speak about is the inconvenient truth of Canada's tobacco industry today: despite world renowned tobacco control policies, over one third of the Canadian tobacco industry is unregulated, illegal, un-enforced and un-taxed.

In Quebec, over 40 percent of the cigarettes purchased are illegal. I'll repeat this. 40 percent of cigarettes purchased in Quebec are illegal. 40 percent of cigarettes in Quebec do not comply with any of Canada's tobacco control measures, such as selling to kids, advertising, promotion and packaging.

In Ontario, the problem is even worse.

50 percent of cigarettes purchased in the province are illegal. In fact, Ontario has a higher rate of illegal cigarette trade than Nigeria, Brazil, Paraguay, Zimbabwe, Colombia and Venezuela.

And the sad truth is that every indication shows that the illegal market is growing and spreading.

The evidence comes directly from the RCMP. In the past few weeks the RCMP has made some enormous seizures of illegal tobacco.

April 29 - 13 million cigarettes from a semi-trailer near Cornwall.
Street value: over \$1.4 million – this is not including the marijuana plants that were also seized.
Uncollected taxes: over \$2.7 million

April 23 - 990,000 cigarettes in New Brunswick
Uncollected taxes: \$200,000

And most recently...

May 13 - 1.7 million cigarettes near the Manitoba-Ontario border.
Uncollected taxes: over \$400,000

Clearly, these are not mom and pop operations. And it is not a question of an extra carton or two in the trunk of a car.

This is big business. And it is all illegal.

These three seizures alone add up to almost 16 million cigarettes and almost \$3.5 million in lost tax revenues to provincial and federal governments. These are just three examples.

But what do they tell us?

First, it is a strong indication that illegal tobacco is being shipped in larger and larger quantities – the truck in Cornwall was not a van or a pick-up truck. It was a semi-trailer. Second, it shows us that the distribution networks are becoming more sophisticated. Third, and perhaps most concerning, the reach of illegal tobacco sales is spreading outside of its tradition stronghold of Quebec and Ontario to other provinces. And finally, law enforcement cannot do it alone. While 16 million cigarettes may seem like a lot; it is a drop in the bucket. The RCMP estimates that in 2008 they seized over 215 million cigarettes. Sounds great, doesn't it? But that was only two percent of the 13 billion illegal cigarettes sold in Canada last year. It is a drop in the bucket.

It is not beyond the realm of possibility that day in and day out, trucks carrying millions and millions of illegal cigarettes are getting by law enforcement and delivering their illegal goods unhindered.

And many of these illegal cigarettes are falling into the hands of kids.

As law abiding citizens, as parents, as business people and as Canadians, we should be outraged.

Canadians are better off with a legal, responsible, and sustainable tobacco industry.

A legal industry that acknowledges the risks associated with cigarette smoking.

A legal industry that wants to find ways to make tobacco products less harmful and puts the necessary resources behind this mission.

A legal industry that understands the need for appropriate regulations and complies with them.

A legal industry that does not want kids to smoke. That's right. I am a father and a CEO of a company that does not market or sell to kids.

An industry that wants to work with governments to address the main issues that Canadians would like to see solved.

The largest tobacco organization operating in Ontario and Quebec is an illegal one and wants none of this.

Before I talk about who they are, I would like to address who they are not.

They are not the vast majority of First Nations people. The bulk of the distribution of illegal tobacco is done "off reserve". This problem is spearheaded by organized crime networks. In its 2008 Contraband Tobacco Enforcement Strategy the RCMP lays it out in black and white. Tobacco trafficking is seen as a significant source of income for all levels of organized crime. The current trend of manufacturing, distributing and selling contraband tobacco products involves organized crime networks exploiting First Nations communities.

The RCMP states that over 100 criminal groups with varying levels of sophistication are involved in this illicit trade. Compounding the problem is that 69% are also involved in drug trafficking, mainly marijuana and cocaine, and/or weapons trafficking. Furthermore, 30% of these groups are known to have violent tendencies.

In fact, the only way for a true solution, and the RCMP agrees, is to open a dialogue with the First Nations leadership and communities. They need to be implicitly involved in crafting a way forward that works for them and their communities.

So just who is behind the sale of illegal tobacco?

It is a conspiracy of criminal organizations, large and small. Lured by the easy money of contraband tobacco.

Its executives are covert. They hide behind their illegal activities. They are not contributors to Canada's business community. They take advantage of Canada's particular geo-political situation. They profit from government inaction and paralysis.

Its customers are anyone with a few dollars. On a good day, six dollars will buy you 200 cigarettes and no one is asking for proof of age.

Its distribution system is dependent on recruiting the young and the disenfranchised to drive illicit cargo to its destination.

Its manufacturing facilities seem to be a mystery. Health Canada inspectors refuse to visit them. Quality control is a foreign concept. There are no government mandated warnings or other health information on illegal cigarettes when you buy them by the plastic bag. Does anyone know where they are made?

Its marketing practices are irresponsible. Buy a baggie of cigarettes and get the chance to win Habs tickets. Or even a new car!

Its employees are expendable. Arrests are the cost of doing business and there is always someone in their talent pipeline ready to step in.

I know what you are thinking – our profits are being threatened. It is true that the rampant sale of illegal tobacco impacts our bottom line. I know that no one is going to shed a tear for the tobacco industry. But there is a larger issue at play here. How can a developed, industrialized, modern, progressive country concerned with its public's health allow a dangerous illegal industry to grow unchecked?

If governments were truly concerned about public health, it would address the over 30 percent of the tobacco market that is illegal and operating without any restrictions or oversight rather than introducing politically expedient and opportunistic legislation.

For example, the Governments of Ontario and Quebec, where contraband exceeds 40 percent, recently announced that they would join the other provinces and introduce legislation that would allow them to sue tobacco manufacturers for healthcare costs allegedly associated with tobacco usage.

This legislation is veiled as a public health initiative.

But it will do nothing to solve the real problem. One that goes beyond a question of public health. One that has economic and social consequences.

In 2008, the federal and provincial governments together lost approximately \$2.4 billion in taxes and that number is growing as the sale of illegal cigarettes grows. The federal government's share was \$1.1 billion. In December, the Ontario Auditor General reported that the estimated tax loss for Ontario in 2006-2007 was \$500 million; and we believe it could be double that today. The Government of Quebec lost approximately \$300 million in 2008.

Is Canada truly in a position to turn its back on billions of dollars in uncollected tax revenues?

There is an even greater threat than the economic consequences.

Illegal cigarettes traffickers are targeting young people. A 2008 study commissioned by the Canadian Convenience Store Association found that 30 percent of cigarettes butts found outside high schools in Ontario and Quebec are illegal. A Global television news report just last week showed kids smoking illegal cigarettes because they were cheap.

As I mentioned earlier, a teenager can buy 200 illegal cigarettes for as low as \$6, compared to approximately \$60 for the same number of legal cigarettes. Furthermore, criminals selling illegal cigarettes do not ask for ID and the very minors that existing rules are in place to protect remain a target. The illegal trade is giving kids unrestricted access to cigarettes at pocket money prices.

The impacts are probably being felt right in your neighbourhood at your local dépanneur. In April, the Canadian Convenience Store Association released a study that detailed state of the convenience store industry in Canada. One of the most shocking findings of the study is the impact of illegal tobacco sales on convenience stores. The consequences of the out-of-control illegal tobacco market are deeply felt among convenience stores, particularly in Quebec and Ontario, where the problem is most acute. One such dépanneur told his story recently in a news report. He lives the problem first hand. He said he sold 500 to 600 cartons of cigarettes per week in 2000. Today, he sells between 45 and 50 cartons per week. He attributes this decline directly to illegal tobacco. He has not had to close his doors yet. But others have.

It is estimated that Canada-wide, convenience stores are losing \$2 billion in tobacco revenue, \$260 million in annual profit and \$600 million in additional sales.

The honest, hard-working owner of your local dépanneur has to compete with criminals. This is not what Canada is all about.

Whether or not you approve of cigarettes is not the issue here. I know that many of you would like to see cigarettes become a thing of the past. But the fact remains that the legality of cigarettes is not likely to change anytime soon. And I think most of us could agree that informed adults still should have the right to make their own decisions.

The big question remains. How do we fix this? I believe that part of the government's reluctance to act is that this seems to be an insurmountable hill to climb. There are just too many complex factors at play and too many challenges. But as simplistic as it sounds, part of the solution is to acknowledge that we have a problem.

Governments have to work in earnest to find effective solutions that go beyond police operations.

Let's get someone in charge. Let's get the laws enforced. Let's control the supply of raw material and machinery. Let's bring everyone involved to the table, from the health authorities to the First Nation communities.

The ironic thing is that the tobacco industry is not alone in this call. Health groups are also calling for government action. And it is not everyday that you get tobacco companies and health groups asking for the same thing. When you do, isn't it time to listen?

Ladies and gentlemen, I ask that for the moment you forget that I have been talking to you today about cigarettes. What if I was talking about any other product? Alcohol? Pharmaceutical drugs? Would this criminality be allowed to continue? Would it still be seen as a victimless crime? The fact that we are talking about cigarettes, a product with clear health risks, makes government inaction and the public's apathy all the more disturbing.

It may seem counterintuitive but what would you prefer: a legal, transparent, open tobacco industry that not only complies with, but also understands the necessity of government regulations, that recognizes the risks of our product, that believes that kids should not be smoking, and that does not market or sell its products to children.

Or the worst case scenario: an unregulated, unlawful, un-enforced and illegal tobacco industry that thumbs its nose at regulation, sells cigarettes to kids, and that traffics guns and alcohol.

The inconvenient truth is that Canada is well on its way to this worst case scenario - a sad position for a country that was once a leader in tobacco control.

Thank you.