

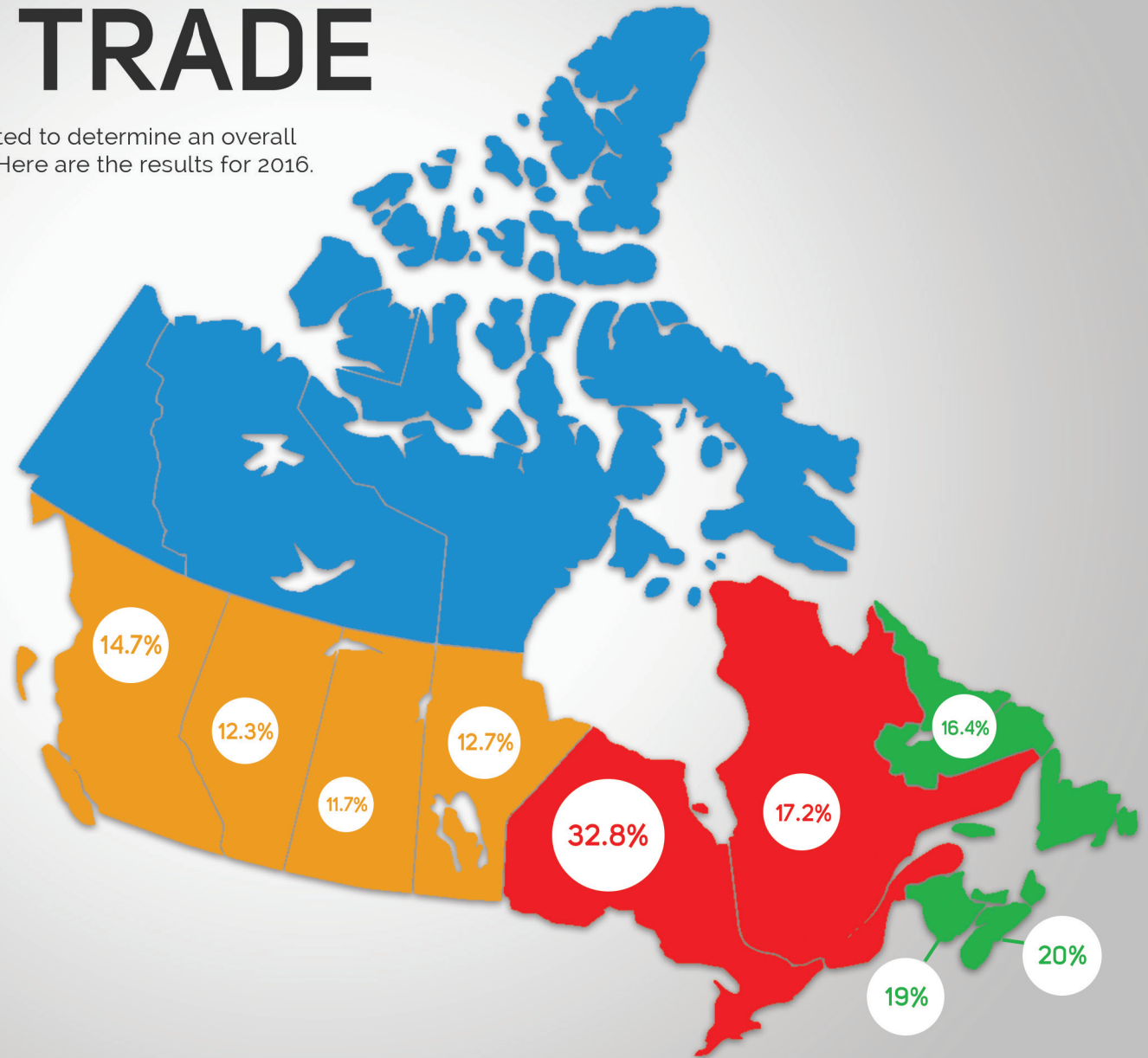
# CANADA'S ILLEGAL TOBACCO TRADE

Each year, discarded cigarette butts are collected to determine an overall average use of illegal tobacco across Canada. Here are the results for 2016.

## What is Contraband Tobacco?

Illegal cigarettes, often referred to as contraband tobacco, are products that do not comply with Canada's tobacco regulations –specifically those regarding packaging, importation, stamping, manufacturing, distribution and taxation.

Contraband cigarettes are typically manufactured in illegal facilities on reserves in both Canada and the US. These products are sold and distributed via 350 smoke shacks in Ontario / Quebec, which sell baggies of 200 contraband cigarettes for as little as \$10 - \$15.



## What are the effects of contraband?



### More Accessible to Young People

Contraband products are sold without age verification checks, making them far more accessible to young people to whom they are sold without mandated health warnings.



### Supports organized crime, putting communities at risk

The spread of contraband results in the growth of an underground, illegal economy. The RCMP has identified 175 criminal organizations who trade in illegal tobacco. In some incidents, contraband trafficking is also accompanied by the trafficking of illegal weapons and narcotics.



### Lost Revenue for Government

Contraband products are not subject to all levels of taxation and can be purchased at a much lower cost to consumers than legal products, resulting in millions of dollars in lost revenue.

## What role do taxes play in Canada's illegal tobacco trade?

- According to the Canadian Taxpayers Federation, provincial and federal governments are losing as much as \$1.22 billion annually to the illegal tobacco trade in uncollected taxes.
- Tobacco tax increases are often introduced by governments as a "quick fix" and revenue tool in times of austerity. However, price increases on legal tobacco products drives up demand for a cheap alternative.
- Governments who have raised provincial tobacco taxes with the hopes of increasing revenue have seen only modest returns. Rather than discourage smoking, a tax increase simply increases demand on the illegal market.
- The federal government recently decided to increase tobacco taxes, on top of the existing, automatic increases which occur on a 5 year basis in line with CPI. The predictability of increases is important not only so our retailers and distributors can prepare, but also in ensuring there is not a spike in demand for cheaper products overnight.

## How can we stop Contraband Tobacco?

Plain packaging of tobacco products could mean the introduction of more counterfeit tobacco in Canada, as it will become impossible for retailers, distributors, consumers and law enforcement officials to distinguish legal from illegal product.

### Recommendations:

- **Thoroughly assess the potential negative consequences associated with plain packaging, including a review of the experience for retailers in Australia, before proceeding with the policy.**
- **Should the policy proceed, ensure a type of visible overwrap exists on tobacco packages so that retailers, distributors and law enforcement can determine legal from illegal product.**
- **Ensure a reasonable transition period (18 months) for retailers and distributors to comply with plain packaging regulations, should the policy proceed.**

Our retailers are the only gatekeepers preventing youth from access to tobacco – illegal traffickers sell to anyone who's willing to buy.

### Recommendations:

- **That any efforts to reduce youth tobacco consumption should be complemented by actions to reduce contraband tobacco and counter the illegal market.**
- **Invest in enforcement units specifically dedicated to reducing contraband tobacco, as has been done in Quebec and New Brunswick.**

Increased taxes on legal tobacco products push the market underground. Those selling illegal tobacco face few deterrence measures, as fines levied against these criminals often go uncollected.

### Recommendations:

- **That the government maintain existing, planned tax rate increases on tobacco products based on CPI, every 5 years.**
- **That the federal government expedite its fine recovery process and/or provide timelines around when this recovery is expected to take place.**