

Tobacco firms behind tax protest

"Spontaneous grass-roots" tobacco-tax protests were secretly organized by big cigarette companies to press the federal and provincial governments to cut tariffs, industry documents show.

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While Canada's major tobacco companies were funneling billions of cigarettes into the United States only to be smuggled back into Canada, they staged a series of so-called "spontaneous grass-roots" tobacco-tax protests, tagging one of them with the code name Boston Tea Party.

Secret industry documents that have recently come to light in U.S. civil actions show the degree to which these protests, which took place between 1991 and 1994, were little more than well-orchestrated industry initiatives designed to press the federal and provincial governments to reduce taxes.

They demonstrate the determination of the industry to dominate the government agenda and push the questionable view that smuggling was a direct result of high taxes.

The documents show the careful planning that went into orchestrating the so-called "grass-roots" protests, letter-writing campaigns and the organizing of industry-favourable reports on smuggling. One document admits that RJR-Macdonald used smuggling and offshore production as "political leverage" against high taxes.

In many ways, the tobacco companies were playing a deceitful role - on the one hand, feeding and encouraging the smuggling; on the other hand, pretending to offer the government support in its law-enforcement attempts.

But the strategy worked. It escalated the smuggling and the political protests to such a level that in 1994 the federal government and the eastern provinces rolled back tobacco taxes by

about \$20 a carton.

"Throughout this period, the industry played the government like a violin," former RJR-Macdonald sales executive Les Thompson said in an interview.

"They played the government like the dumb kid next door. They lied to them," he added.

"They complained about smuggling and, meanwhile, they were fueling the black market. They were speaking out of both sides of their mouths."

Thompson is the only tobacco executive to have been convicted of a smuggling offence. He pleaded guilty last year in U.S. Federal Court in Syracuse, N.Y., to a money-laundering charge and now faces 70 months in a U.S. prison.

In interviews with *The Gazette*, he said the tobacco companies organized the tax protests "from the bottom up."

Michel Descôteaux, public-relations director for Imperial Tobacco, played a major role in coordinating and writing press releases for the tax protests. Asked whether, while organizing protests, he was aware that Imperial and RJR-Macdonald were shipping cigarettes to New York state to be smuggled back into Canada, Descôteaux said: "Well, uh, sir, the company certainly was (aware). The extent to which I personally was, the answer to that was, I don't know. ... That would be irrelevant, sir."

The so-called "Boston Tea Party" was the first of the protests organized by the tobacco companies in 1991. They spent \$3 million to mobilize smokers for a mail-in campaign to oppose high tobacco taxes.

Working through their industry association, the Canadian Tobacco Manufacturers Council, or CTMC, Imperial Tobacco and RJR-Macdonald financed marketing and focus-group studies to gain support for the campaign and to show that it was "spontaneous."

According to Imperial Tobacco documents, the impression of spontaneity was a prerequisite for a "successful program."

The protest itself consisted of forms printed on the slide-out back of cigarette packs.

The forms were titled "Tax Protest" and carried the following message to the prime minister: "I want you to stop the unfair taxation of tobacco products in Canada." Because they were addressed to the prime minister, postage was free. The protester simply printed his or her name and address on the form and slipped it into a mailbox. A protester could send any number of these tax-protest "postcards."

The companies printed 50 million forms. Before issuing them, they launched a public-relations campaign to ensure smokers and non-smokers alike knew about the "spontaneous" campaign against high taxes.

According to Imperial documents, RJR-Macdonald and Imperial spent \$1.8 million advertising the tax-protest forms in 66 newspapers across the country and another \$932,000 for 30-second spots on 46 radio stations. They also spent additional funds tracking the protest to gauge its effectiveness.

The companies also ordered their field salesmen to push cigarette retailers to promote the protest.

Thompson, who at the time was in charge of tobacco sales in Ontario for RJR-Macdonald, said his company was responsible for pushing the convenience-store chains while Imperial had the drugstore chains, some of which their parent company, Imasco, owned.

He said that while Rothmans didn't print the tax forms on their packages, they agreed to lobby the food and other chain stores.

The campaign, officially launched May 31 by the Canadian Tobacco Manufacturers Council, received front-page coverage in many dailies. The industry never disclosed the fact that it code-named the project the Boston Tea Party, a reference to an event in U.S. history that marked the beginning of the American Revolution.

At the launch, CTMC president William Neville read a prepared statement approved by the tobacco companies in which he claimed smokers had been "calling and writing our member companies to protest the tax increases."

He added that smokers approached manufacturers "out of a sense of helplessness."

"They felt they were lonely, unheard voices and were frustrated and angry," he said. "That is why

we decided to do what we could to help them vent that frustration and anger ... Again, our only role in this exercise is that of a conduit."

Descôteaux said in an interview that he could not remember how many calls tobacco companies received from irate smokers. Also unanswered was the question of why smokers, if they were so irate, couldn't just write to the government themselves. Postage was free, after all.

Internal documents show that in April 1991 the tobacco companies formed focus groups from which they obtained a string of comments they claimed supported their contention that the movement was "grass roots."

Cited focus-group comments included:

■ "It's not fair. Smokers and drinkers always get screwed."

■ "The tobacco industry has shown no inclination to support smokers in the past. Will we be alone again?"

A CTMC document, stamped confidential and titled "Boston Tea Party II - Possible Questions and Appropriate Answers," instructed CTMC officials to state that high taxes were causing smuggling: "The cause of smuggling is simple: Canadian tobacco taxes are much too high in relation to those in the United States."

The industry never disclosed to the public or the government that during this time, RJR-Macdonald was supplying smugglers through Buffalo, N.Y., free-trade zones and was switching production offshore. The smuggling market became so lucrative for RJR-Macdonald that by the end of 1991 as much as 50 per cent of its shipments were going to the United States to be smuggled back into Canada.

Thompson, who was one of the RJR-Macdonald executives overseeing the sales into the black market, told *The Gazette* that by 1993 more than 60 per cent of the company's net profits came from cigarettes sold to smugglers.

The Boston Tea Party protest lasted two weeks. Tracking reports by the tobacco companies showed that about 9 per cent of Canadians (26 per cent of smokers) mailed the protest form.

The complete story of the tobacco industry's lobbying attempts is contained in a report written in August 1994 by Descôteaux. The report was sent to David Bishop, tobacco-tax manager for British American Tobacco Co. Ltd., which owned 42.3 per cent of Imperial Tobacco's parent company, Imasco. (BAT says it will close a deal Feb. 2 to buy the remaining shares of Imasco.)

The report refers to the Boston Tea Party project as the "most spectacular 'untraditional' initiative" pulled off by the industry."

But that was only part of the industry's anti-tax campaign. Descôteaux notes that to give the government an indication of the size of the smuggling problem, the industry in 1992 hired outside expert Rod Stanler, a former RCMP superintendent working for a private investigation company in Toronto.

Stanler came up with a series of reports that the industry distributed to government departments. The reports indicated that smuggling in 1993 accounted for as much as 40 per cent of the tobacco market, a figure the government used when it reduced taxes in February 1994.

His reports have since been criticized by anti-smoking organizations for broadly overstating the smuggling problem. The government has since admitted the 40-per-cent figure was exaggerated.

The industry sent Stamler on a publicity tour across Canada to push the argument that high taxes caused massive smuggling.

Descôteaux's report goes on to state that the industry arranged for Stamler to meet politicians and government officials "so that his report could become the document of reference on these aspects of the issue."

Stamler's reports never mentioned that the tobacco companies were actively feeding the smuggling networks.

(Stamler also hired himself out to the National

Coalition Against Crime and Tobacco Contraband, a Washington, D.C., lobby group financed by R.J. Reynolds Tobacco Co. Big tobacco in the United States has been lobbying heavily against increased tobacco taxes. Stamler has written a series of reports for the coalition, titled *Organized Crime and the Smuggling of Cigarettes in the United States*. The latest is dated 1993. It describes the smuggling situation in Canada during the early 1990s and gives the same erroneous figures he used in his Canadian smuggling reports.

(The coalition sent Stamler on a 16-city tour during which he warned that gun-toting smugglers from Mexico would be pushing black-market cigarettes on U.S. children. The coalition boasts that Stamler's reports have been referenced by U.S. government agencies. Nowhere in his reports does he mention the part played by R.J.R.-Macdonald or its parent R.J.R.-Nabisco in smuggling.)

Stamler did not return phone calls.

Under the subtitle "More Mobilization," Descôteaux described how tobacco companies helped organize in 1993 a protest by growers, wholesalers and unions called the Quebec Coalition for Fair Tobacco Taxation. He states the protest finally caused the Quebec government to agree to lobby the federal government to roll back taxes.

"The government did not want to face the electorate without having solved a problem that showed up daily in question period and in the media," Descôteaux said.

Finally, Descôteaux describes a small group of retailers in Quebec who publicly announced that they would sell black-market cigarettes, "in effect daring the government to arrest them." He says this "last initiative" was "probably the straw that broke the camel's back" and forced the federal government to roll back taxes on Feb. 8, 1994.

But that wasn't enough for Imperial. Descôteaux bemoans the fact the five western provinces did not join the rollback, that the tax reductions are probably temporary, and that with tax increases in the United States, tobacco taxes in Canada will probably rise anew. He said this still represents a "problem" for the industry.

That tobacco-company executives used smuggling as a lever against the government is probably best summed up by a statement made by R.J.R.-Macdonald president Ed Lang.

In a 1993 strategic report that commented on taxation issues in Canada, Lang states: "Offshore production will be maintained to optimize (market) share and political leverage."

He was referring to the fact that R.J.R.-Macdonald had transferred production of Export A cigarettes to Puerto Rico, from where they were shipped to smugglers. The company was also producing fine-cut tobacco out of a plant in North Carolina. This production was also shipped to smugglers.

The Canadian government launched a \$1-billion lawsuit in Syracuse, N.Y., last month against R.J.R.-Macdonald, several affiliate companies and the CTMC, claiming they defrauded and lied to the government. The lawsuit claims the CTMC knew R.J.R.-Macdonald was involved with smuggling but nevertheless "falsely claimed, through meetings, letters and agreements with Canada, to be engaged in active steps to combat smuggling."

Federal justice and revenue ministers have stated that the government is also examining the conduct of Imperial Tobacco and Rothmans Benson & Hedges.

The government initiated a policy of high taxes in the mid-1980s to discourage people, mostly adolescents, from smoking.

The tobacco industry hired Ottawa consulting firm Informetrix Ltd. in 1990 to prepare a report that said the federal government was losing huge revenues because the "prevalence of cigarette smoking has plunged with the price increases."

When this argument failed to reverse the tax hikes, three years later big tobacco again hired Informetrix. This time the report stated that high taxes were not discouraging smoking because of cheaper black-market cigarettes.

Smuggling and the subsequent tax rollback have caused the government to lose at least \$5 billion in taxes.

"The cause of smuggling is simple: Canadian tobacco taxes are much too high in relation to those in the United States."

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