

TOBACCO: ECONOMIC CONSIDERATIONS

This paper includes:

- A) Overview of tobacco industry jobs, revenues, costs and profits
 - B) Economic perspective
 - C) Economic impact of a reduction in tobacco use
 - D) Taxation of tobacco products
- E) Economic impact of a ban on sponsorship by the tobacco industry
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A) OVERVIEW OF TOBACCO INDUSTRY JOBS, REVENUES, COSTS AND PROFITS

■ Jobs

The tobacco industry directly employs 3,943 people in Canada.¹ (*To this total must be added the numbers of people employed by the country's 1,326 tobacco farm producers², for whom statistics are unavailable.)

⇒ **TOTAL: 3,943 jobs***

■ Government revenue³

The federal tax on tobacco products accounts for approximately \$2.031 billion yearly in revenue to the Government of Canada, and specific provincial taxes on tobacco products represent a further \$1.873 billion for the provinces.⁴

⇒ **TOTAL: \$3.904 billion**

■ Costs attributable to tobacco⁵

Costs related to tobacco use in Canada include the direct cost of health care, such as hospitalizations, medical care, and medication (\$2,644,480,000), indirect productivity losses due to sickness and death (\$6,657,289,000), the costs of prevention and research efforts (\$51,200,000), and other indirect costs such as fires (\$16,548,000).

⇒ **TOTAL: \$9.370 billion**

■ Net profits for the tobacco industry

Tobacco industry profits⁶ are divided as follows: approximately \$815 million for Imperial Tobacco⁷ (which holds 69.3% of the Canadian market⁸), \$188 million for Rothmans⁹ (with a 17.96% market share¹⁰), and an estimated \$146 million for RJR Macdonald (12.7% of the Canadian market¹¹ extrapolated from the other two companies' profit shares).

⇒ **TOTAL: \$1.149 billion**

¹ Industry Canada, Strategis, 1998, quoted in Physicians for a Smoke-Free Canada, *Cigarette Industry in Canada: Wages and Employment*, July 1998 [information document].

² Canadian Tobacco Manufacturers Council. 1993. *Le tabac au Canada*. 1992, June 1, 1993, quoted in Cunningham, R., 1997, *La guerre du tabac : l'expérience canadienne*, Ottawa: International Development Research Centre, p. 198.

³ (Excludes federal GST and provincial sales taxes.)

⁴ "Public Accounts of each jurisdiction, 1991-92 to 1996-97," quoted in Physicians for a Smoke-Free Canada, *Tax Revenues from Tobacco Sales*, July 1998 [information document].

⁵ Single, E., Robson, L. et al. 1996. *The Cost of Substance Abuse in Canada*. Toronto: Canadian Centre on Substance Abuse.

⁶ Profits before taxes.

⁷ Imasco Ltd. 1998. *Annual Report 1998*.

⁸ Filter Tips. 1998. "Market movements." *Filter Tips*. Première issue, Fall 1998.

⁹ Rothmans Inc. 1998. *Annual Report 1998*.

¹⁰ Filter Tips. 1998. "Market movements." *Filter Tips*. Première issue, Fall 1998.

¹¹ Filter Tips. 1998. "Market movements." *Filter Tips*. Première issue, Fall 1998.

B) ECONOMIC PERSPECTIVE

- **When it comes to the issue of smoking, economic arguments are secondary:** curtailing tobacco use is first and foremost a matter of public health and of the preservation of our most precious heritage, that of human life. The total number of smoking-attributable deaths in Canada for 1991 is estimated at 45,064. Trends suggest that in the year 2000, a total of 46,910 deaths will be attributable to smoking¹².

C) ECONOMIC IMPACT OF A REDUCTION IN TOBACCO USE

- **The World Bank has concluded that "tobacco is, globally, a net economic disaster".** That is why its policy is no longer to finance tobacco production, processing or marketing, but instead to assist the health sector and government agencies in designing programs to curb smoking.¹³
- **The true economic impact of anti-tobacco measures is often grossly exaggerated.**¹⁴ Measures to reduce smoking do not aim to prohibit the sale of cigarettes overnight, but to reduce, in the long run, the demand for tobacco products. Tough measures will not result in an instant loss of jobs in the sectors affected. Curtailing tobacco use is a long-term process and its effects will take several years to be felt. The sale and use of tobacco will continue for years in order to meet the needs of the 6,7 million regular smokers in Canada.¹⁵
- **Falling demand for tobacco does not mean a fall in a country's total employment level.** Money that smokers once spent on cigarettes would instead be spent on other goods and services, generating other jobs to replace any lost from the tobacco industry. Studies consulted by the World Bank show that most countries would see no net job losses, and that a few would see net gains, if tobacco consumption fell.¹⁶
- **In addition to harming employees' health, creating tension among staff, and affecting morale,¹⁷ smoking generates major hidden costs for employers.** These costs amount to \$2,565 a year for every employee who smokes¹⁸:

Cost Factor	Cost (1995 \$ per employee)
Increased absenteeism	\$230
Decreased productivity	\$2,175
Increased life insurance premiums	\$75
Smoking area costs	\$85
Total :	\$2 565

¹² Ellison, L. F.; Mao, Y.; Gibbons L. 1995. Projections de la mortalité imputable au tabagisme au Canada, 1991-2000. *Maladies chroniques au Canada*, 16(2).

¹³ Barnum, H., *World Bank Policy on Tobacco*, World Bank, Washington, D.C., 1992.

¹⁴ Allen, R.C., *The False Dilemma: The impact of Tobacco Control Policies on Employment in Canada*, University of British Columbia, February 1993, p. 41.

¹⁵ Health Canada. 1999. National Population Health Survey Highlights for 1996/97.

¹⁶ The World Bank. 1999. Directions in Development. Curbing the epidemic, Governments and the Economics of Tobacco Control.

¹⁷ Dewey, M., *Smoke in the Workplace: An Action Manual for Non-Smokers*, Non-Smokers' Rights Association, 1986, pp. 26-27.

¹⁸ *Bilan de la Consommation de Tabac : Les coûts de l'usage du tabac en milieu de travail*, Conference Board of Canada, Jan. 1997.

- **Personnel reduction in the tobacco industry could occur with a minimum of disruption to the job market.** Tobacco manufacturers have been reducing their labour force on their own since the early 1980s and hiring few new workers. As a result, the average age of employees is high and many will be retiring over the next decade.¹⁹
- For example, when Imperial Tobacco announced a \$60 million investment to modernize its Montreal plant in April 1999, the company added that **the number of production employees at the plant would be reduced by 15% in the coming years due solely to normal retirement and attrition rates.**²⁰
- **The economy can react to the lower cigarette demand by creating at least as many jobs in other industries as those lost in tobacco production.**²¹ This fact was confirmed by two studies commissioned by the tobacco industry itself.²²
- **The industry often threatens to export jobs if the government decides to adopt major anti-tobacco measures. The fact is, few jobs are left in the tobacco growing and manufacturing sectors that can be threatened:** Most jobs related to tobacco are in the distribution sector and will remain in Canada regardless of where production takes place.²³ The job cuts that took place over the past few years were mostly due to internal restructuring and technological advancements.²⁴

C) TAXATION OF TOBACCO PRODUCTS

- **Tax measures and economic policies simultaneously contribute to protecting the health of the population, boosting public revenue, and reducing health care expenses.**²⁵
- **Taxes on tobacco products are a public health measure.** For every 10% increase in the real “inflation adjusted” price, there will be a 2% to 8% drop in tobacco consumption. Teenagers—those that comprise the majority of people who start to smoke—are particularly affected by price, with a 10% increase in price reducing their consumption by more than 10%, and deterring many from ever starting to smoke.²⁶

(cont'd. . .)

¹⁹ Allen, R.C., *The False Dilemma: The impact of Tobacco Control Policies on Employment in Canada*, University of British Columbia, February 1993, p. 40.

²⁰ Ravensbergen, J. 1999. “Imperial Upgrades at St. Henri,” *The Gazette*, April 27, 1999.

²¹ Allen, R.C., *The False Dilemma: The impact of Tobacco Control Policies on Employment in Canada*, University of British Columbia, February 1993, p. 41.

²² Stoffman, D., “Where There’s Smoke,” Report on Business Magazine, September 1987.

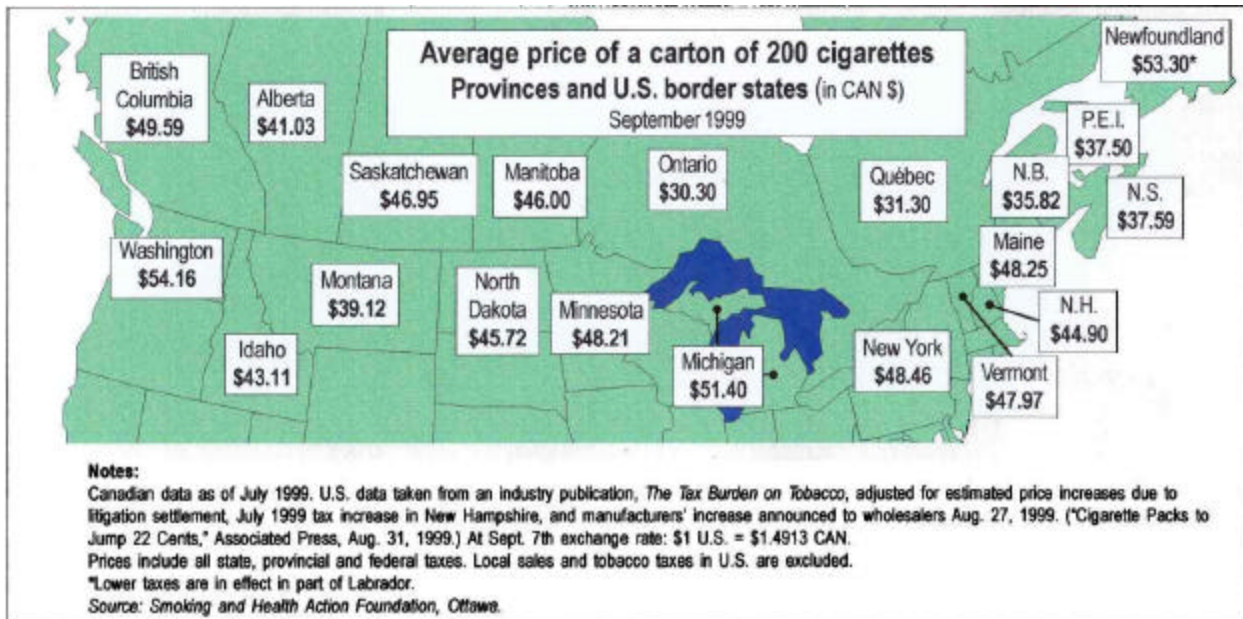
²³ Allen, R.C., *The False Dilemma: The impact of Tobacco Control Policies on Employment in Canada*, University of British Columbia, February 1993.

²⁴ Ibid.

²⁵ World Health Organization. Tobacco Epidemic: Much More than a Health Issue. Fact Sheet No 155, May 1998

²⁶ World Health Organization. Tobacco Epidemic: Much More than a Health Issue. Fact Sheet No 155, May 1998

- Despite the decrease in consumption that accompanies it, a raise in tobacco taxes increases government revenues. This is in part because the proportionate reduction in demand does not match the proportionate size of the tax increase, since addicted consumers respond relatively slowly to price rises. A model developed for a World Bank study concludes that modest increases in cigarette excise taxes of 10 percent worldwide would increase tobacco tax revenues by about 7 percent overall.²⁷
- **The threat of renewed smuggling has been considerably reduced since the crisis of 1993–94:**
 - **First, the tobacco industry's role in contraband Canadian cigarettes is now known:** two company directors (from Brown & Williamson and RJR Macdonald) were indicted in the United States for their role in the smuggling, and Imperial Tobacco internal documents show that the company was not only prepared to profit from contraband, but to supply the smugglers as well.²⁸
 - Second, in the wake of the recent \$206 billion agreement reached between U.S. states and the tobacco companies, **the prices of packs of cigarettes in the United States have increased to the point where they greatly exceed those of packs sold here.** Currently, the price of a carton of cigarettes in Ontario and Quebec is about \$18 less than in the states bordering these provinces.²⁹



²⁷ The World Bank. 1999. Directions in Development. Curbing the epidemic, Governments and the Economics of Tobacco Control.

²⁸ Marsden, W. "Tobacco Firms Eyed Smuggling," *The Gazette*, April 28, 1999.

²⁹ Smoking and Health Action Foundation. 1998. *Average Price of a Carton of 200 Cigarettes, Provinces and U.S. Border States*, Dec. 1998.

D) ECONOMIC IMPACT OF A BAN ON SPONSORSHIP BY THE TOBACCO INDUSTRY

- **Tobacco industry sponsorship represents far less revenue for cultural and sporting events than we tend to believe:** The sponsorship of cultural events by tobacco manufacturers represents less than 1% of total revenue of the events sponsored in about 40% of cases, and between 1% and 9% of total revenue in about 50% of cases.³⁰
- **Sports events that accept money from the tobacco industry are exceptions.** Only a few events (auto racing, tennis, golf, equestrian tournaments) use tobacco-related sponsorship. The majority of amateur and professional sports events do not.
- **There are alternatives to sponsorship by the tobacco industry.** In Australia, events are sponsored through an independently administered government fund generated by a special tobacco tax, and the sponsorships are granted in the form of health campaigns (e.g., the *QUIT* program). In Quebec, the government has earmarked a percentage of its 1998 tax hike, equivalent to \$12 million per year, to finance events whose organizers choose to wean themselves off tobacco industry sponsorship money.
- **When an event offers sufficient promotional potential, other sponsors can be found.** Air Canada has replaced Player's as sponsor of the Canadian Grand Prix in Montreal; the Montreal International Jazz Festival is in negotiations that would see GM Canada, Air Transat and U.S. Airways take the place of du Maurier; and Craven 'A' has been replaced by Loto-Québec for the sponsorship of the Montreal Just for Laughs Festival.

E) ECONOMIC IMPACT OF SMOKING RESTRICTIONS

- **Market forces cannot be relied on when it comes to dealing with the problem of non-smokers being exposed to secondhand smoke.** Secondhand smoke is a public health issue on the same level as that of food product safety, or building safety. We do not let "market forces" dictate the quality of meat in restaurants—we rely on government standards and regular inspections.
- **Every independent published study has shown that restaurants don't suffer revenue losses after becoming smoke-free** and that several restaurants have even seen increases in revenue.^{31 32}
³³ Publications that have published such studies include: the *Journal of the American Medical Association*, the *Journal of Public Health Management Practice*, the *American Journal of Health Promotion*, the *North Carolina Medical Journal*, the *American Journal of Public Health*, the *Journal of Community Health* et the *Morbidity and Mortality Weekly Report*.

³⁰ Study conducted by the Canadian Conference of the Arts, quoted by the Canadian Cancer Society, March 1996.

³¹ Glantz, S.A., L. Smith, "The Effect of Ordinances Requiring Smoke-Free Restaurants on Restaurants' Sales," *American Journal of Public Health*, July 1994, 84(7).

³² Smoke-Free Educational Services, *Reasons Why Restaurants Should Be Smoke-Free*.

³³ Maroney, N. et al., *The Impact of Tobacco Control Ordinances on Restaurant Revenues in California*, Claremont Institute for Economic Studies, January 1994.

- **The most recent study examined the impact on the tourist trade of a complete ban on smoking in restaurants**, in three states and six cities in the U.S. The results showed that the tourist industry did not appear to have been negatively affected by such restrictions, and in fact showed growth during the period under study.³⁴
- **If restaurants were smoke-free, there would be more people eating out more often than people cutting back on eating out**. In an Angus Reid survey, 39% of people said they'd dine out more frequently, 46% said their habits wouldn't change and 16% said they'd eat out less often (which results in **a positive net gain of 23%**³⁵). A survey in New York yielded similar results.³⁶
- **The *Conference Board of Canada* conducted a nationwide study of restaurants that have placed a total ban on smoking. The board concluded that «The conversions had the desired effect.** Employee reaction to the smoke-free policy was favourable and the majority of restaurants reporting on customer satisfaction with the new policy indicated that it was favourable as well [...] **the experience of going smoke-free was a positive one for the majority of restaurants examined in this study** ».³⁷
- **Studies suggesting that bans on smoking hurt business are often dubious. Usually they have been funded by the industry**, like those sponsored or conducted by the *Empire State Restaurant and Tavern Association* (funded by Philip Morris), *Price Waterhouse* (a research firm supported by the industry) and the *New York Tavern and Restaurant Association* (funded by the industry). In other cases, **independent studies have been misinterpreted** and in fact support the position of smoke-free restaurants.

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³⁴ Glantz, S.A. and Charlesworth, A. 1999. "Tourism and Hotel Revenues Before and After Passage of Smoke-Free Restaurants Ordinances," *Journal of the American Medical Association*, 281(20), pp. 1911–1918.

³⁵ Angus Reid poll of 3,200 GTA residents, April 1996.

³⁶ Gallup, *Public Opinion Poll on New Yorkers' Attitudes about Smoke-Free Dining*, October 1994.

³⁷ "L'incidence économique de l'interdiction de fumer dans les restaurants," Conference Board of Canada, March 1996, p. 2.