

(Summary Document, 2001)

# TOBACCO SMUGGLING

## 1988-2000

This document is based largely on the December 19, 1999 *Gazette* article by William Marsden.

The main person in charge of organizing cigarette smuggling for the tobacco company RJR McDonald (Export 'A'), who is presently in jail in the U.S., told reporter William Marsden how the Canadian tobacco industry planned the smuggling of their cigarettes:

### 1) THE BEGINNING OF THE END

- On February 24, 1999, Leslie Thompson was arrested by U.S. Customs agents in Windsor, Ontario, handcuffed and thrown into jail in Syracuse, N.Y.
- Who is Les Thompson? One of the best and most aggressive sales representatives of RJR Macdonald (Export 'A'). It was his job to convince retailers to sell more of HIS cigarettes. For years Thompson exceeded his sales projections, which is what led him to become the frontman for cross-border tobacco trade between Canada and the U.S.
- Sitting in his prison cell, Thompson recalled perfectly the words a company lawyer had spoken a few months earlier, when rumours of an investigation by U.S. authorities were circulating: *"Stand tall through this, Les. We will stand behind you. [...] The government is sabre-rattling. This thing is going to go away."*
- A few days after being arrested, another company lawyer met with Thompson to give him both good and bad news: *"The good news is I'm here. The bad news is the company will not support a trial."* In other words, *you're on your own.*
- At the time, the official company position regarding smuggling and Les Thompson, as intimated to shareholders, was: *"Thompson [is] a rogue who [has] redirected European-bound cigarettes back to Canada without the top brass knowing about it. Employees are prohibited from engaging in smuggling or other violations of the law. [There will always be the] risk that dishonest employees... find ways to circumvent controls for their own personal benefit."*
- Rejected by the company, Thompson pleaded guilty to smuggling charges. He was sentenced to 7 years in jail, a term he is currently serving.
- However, he decided he would not take the blame alone. Thompson disclosed everything he knew about smuggling operations.
- This is what he had to say: *"[Canada's tobacco] companies have claimed that they simply sold to licensed traders who regularly ordered their products. What happened to the cigarettes, they have said, was not their concern."*

- He added: *“However, [they] solicited the business and fought to hold onto it.”*
- *“Each of Canada’s three big tobacco companies—RJR Macdonald, Rothmans Benson & Hedges Inc., and Imperial Tobacco—organized their own corporate structures or signed special contracts to service [the] black market.”*
- *“It reveals [...] how the industry marshaled its forces to make huge profits out of a black-market economy that defrauded Canadian taxpayers of an estimated \$5 billion in tobacco taxes.”*
- *“Let’s be very clear on that. It wasn’t extra business. IT BECAME THE BUSINESS.”*

## **2) SOURCE OF THE PROBLEM**

- A drop in industry sales and profits was caused mainly by continued tax hikes as of 1983.
- By 1991, RJR had lost ground; the company was manufacturing only one brand of cigarettes for a declining blue-collar clientele. What’s more, the other two big tobacco companies were already involved in smuggling, eroding RJR market shares and making huge profits.
- RJR then asked Les Thompson and a dozen company sales representatives to approach all U.S. retailers near the Canadian border, from New Brunswick to British Columbia, to convince them to buy more Export ‘A,’ hoping that Canadian customers would make the trip to buy cigarettes.
- The attempt failed. The black market was already so well organized that Canadians didn’t even have to cross the border for cheap cigarettes.
- That is when top company executives decided to set up a bona fide smuggling network. They asked Les Thomson to head all operations. He made contacts with dealers and had them sign contracts. The company’s sole condition: that shipments be prepaid.

## **3) RAKING IN THE PROFITS**

- The parallel market fast became 30%, then 50%, and later 60% of the company’s sales volume, becoming its primary source of income.
- Business moved so quickly, that RJR didn’t even have time to change the packaging to meet export requirements. So smugglers themselves unwrapped every carton, placed a “NOT FOR SALE IN CANADA” sticker on and repacked them to make the shipments look legitimate.
- To ensure smugglers’ loyalty, RJR set aside a \$1.6 million budget for “entertainment”: fishing parties in exclusive clubs, trips to Las Vegas, golf tournaments, VIP treatment at Formula One races, baseball and hockey parties. Les Thompson even received a Cadillac as a gift.

#### **4) WARNING SIGNALS**

- First warning signals appeared in January 1994 in the U.S., when RBI was subpoenaed on smuggling-related offences. The company pleaded guilty and was fined \$15 million. Since 1994, the entire RJR smuggling network is being monitored by U.S. authorities and has brought about the current convictions.

#### **5) IN CANADA**

- On December 21, 1999, the Canadian Government filed a \$1 billion lawsuit against RJR Toronto, RJ Reynolds Tobacco Holding and the Canadian Tobacco Manufacturers Council (CTMC) for their involvement in smuggling.
- It accused the CTMC of misleading the government by drawing its attention away from industry smuggling activities, thereby enabling tobacco barons to act with impunity.
- The suit was filed in the U.S. under RICO, an anti-corruption and anti-racketeering law.

#### **6) ELSEWHERE AROUND THE WORLD**

Colombia and Ecuador followed Canada's example and filed their own conspiracy suits.

On November 6, 2000, the European Union filed a suit on the same grounds against RJ Reynolds and Philip Morris.