

Coalition québécoise pour le contrôle du tabac

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(October 16 2002)

Contraband Cigarettes in the Media: False alarms generated by convenience stores



[Clockwise from top: “Contraband starts up stronger than ever,” “Tobacco: Smugglers would do the rounds of duty-free shops,” “Contraband cigarettes cause fear of ‘catastrophe’ for convenience stores,” “‘Feather cigarettes’ are back.”]

Over the past few weeks, retailer associations have undertaken a public relations campaign in an effort to convince the public, the media, and politicians that sales of contraband cigarettes, which were a huge problem in the early '90s, have resumed and risk provoking the bankruptcy of numerous small-scale convenience stores. Among other things, these associations claim that:

[Because of smuggling.] *“retailers are losing 25% to 30% of their tobacco sales... Many convenience stores will have to close. We’re heading for a catastrophe.”*¹

— Diane Héту, Communications Director for the
Quebec Food Retailers Association

[We have] *“tried to convince the governments (not to raise taxes) without success... Contraband is diminishing sales.”*²

— Alain Bouchard, President of Alimentation Couche-Tard Inc.

(*This English translation was paid for by the Canadian Council for Tobacco Control*)

¹ Diane Héту, “La contrebande de cigarettes fait craindre une ‘catastrophe’ chez les dépanneurs,” *La Presse* (Montreal, September 23 2002). [*À cause de la contrebande, des détaillants perdent de 25% à 30% de leurs ventes de tabac... Il y a plein de dépanneurs qui vont fermer. On s’en va vers une catastrophe.*]

² Alain Bouchard, President of Alimentation Couche-Tard, “Le président de Couche-Tard en veut à Ottawa et Québec,” *La Presse* (Montreal, September 26 2002). [*Nous avons tenté de convaincre les gouvernements (de ne pas trop hausser les taxes), sans succès... La contrebande fait fléchir les ventes.*]

■ Retailer associations have a habit of criticizing each new anti-tobacco measure.

Public health measures that reduce tobacco use inevitably go against the commercial interests of retailers who sell tobacco products. The same holds for efforts to restrict tobacco promotion at points of sale: retailers generally receive several thousands of dollars for special displays and « power walls » of cigarette packages. It is not surprising, then, that there are close ties between the tobacco industry and convenience store associations. In fact, the tobacco industry finances the Quebec Food Retailers Association.

Retailers therefore align themselves with the tobacco industry to vigorously oppose all effective tobacco control measures — new advertisements on cigarette packets (“*Convenience stores fear bankruptcy: new cigarette packages too repulsive*”³), proposed restrictions to point-of-sale promotions (“*Do we want to kill off convenience stores?*”⁴), measures and sanctions related to the sale of tobacco to minors (“*Government harasses convenience stores*”⁵), and, finally, higher taxes on tobacco products.

[“*Couche-Tard president angry with Ottawa and Quebec. Alain Bouchard, top man at Couche-Tard, attacks Ottawa and Quebec on tobacco and beer, but refuses to comment on ADQ Leader Mario Dumont.*”]

* LA PRESSE, 26 septembre 2002

Le président de Couche-Tard en veut à Ottawa et Québec

LAURIER CLOUTIER

Le grand patron de Couche-Tard, Alain Bouchard, tombe à bras raccourcis sur Ottawa et Québec au sujet du tabac et de la bière, mais refuse tout commentaires sur Mario Dumont, le chef de l'ADQ.

« Ce n'est pas la première fois que le gouvernement du Québec fait des imbécillités comme » avec la loi 100 qui va permettre aux restaurateurs (comme des pizzerias et les pâtisseries) de livrer du vin et de la bière avec un repas, a déclaré hier M. Bouchard, président du conseil, président et chef de la direction d'Alimentation Couche-Tard.

Dans le cas de la hausse des taxes et de la relance de la contrebande du tabac, « Ottawa et les provinces ne nous ont pas écoutés. Mais on n'en est pas à leur première décision irresponsable » à ce sujet, a ajouté M. Bouchard en conférence de presse tenue après l'assemblée an-

« marché », ajoute François Meunier, de l'Association des restaurateurs du Québec.

M. Bouchard a « tenté de convaincre les gouvernements (de ne pas trop hausser les taxes sur le tabac), sans succès. On leur a fait des courbes d'élasticité du taux de taxes au-delà desquelles les fumeurs se sentent abusés au point d'acheter leurs cigarettes en contrebande ». Rien n'y fit. « Québec n'a pas écouté, ni Ottawa. La contrebande fait fléchir les ventes mais son plein impact ne se fera sentir que dans un an. Ce n'est que le début maintenant. Couche-Tard fait de bonnes ventes avec deux marques de PME locales, Suprême et Bailys, à 45 \$ la cartouche », mais ça ne compense pas les ventes perdues à la contrebande, dit-il.

Pendant ce temps, Couche-Tard continue de croître dans le Midwest américain et d'afficher une performance hors pair (croissance annuelle composée de plus de 50 % depuis cinq ans) mais a rejeté, la semaine dernière, un autre projet d'acquisition ne respectant pas un de ses critères sur la rentabilité.

■ Retailers themselves participated in contraband activities.

According to internal documents from the tobacco industry, the Quebec Food Retailers Association collaborated with the tobacco industry to sell contraband cigarettes, with the aim of lowering taxes on tobacco. For example, retailers met in the Association's offices in the presence of a tobacco industry representative, to plan the sale of contraband cigarettes.⁶

LA PRESSE, MONTRÉAL, MERCREDI 1^{er} DÉCEMBRE 1999

Les compagnies de tabac ont utilisé les commerçants pour faire baisser les taxes

ANDRÉ NOËL

Les compagnies de tabac ont utilisé des groupes de commerçants pour faire baisser les taxes sur les cigarettes il y a cinq ans, montrent des documents d'Imperial Tobacco récemment découverts par Santé Canada en Grande-Bretagne.

Imperial Tobacco, filiale de la compagnie British American Tobacco (BAT), contrôle 70 % du marché canadien. Son usine, située à Montréal, fabrique les cigarettes Player's et Du Maurier. À la suite d'un jugement aux

(ADA). « Si cette campagne échoue, elle aura au moins contribué à augmenter la connaissance du problème par la population et généré une couverture médiatique importante, surtout sur le sort des petits détaillants dont les préoccupations jouissent d'une grande sympathie parmi la population, selon un sondage fait par Imperial Tobacco Limited. »

Un article paru à la même époque dans le *Journal of American Medical Association* affirmait que les compagnies de tabac recourent systématiquement à d'autres groupes plus populaires qu'elles pour influencer l'opinion pu-

porter massivement des cigarettes aux États-Unis, sachant que celles-ci reviendraient au Canada par les réseaux de contrebande.

« Nous avons décidé de ne plus limiter nos exportations afin de regagner notre part du marché parmi les fumeurs canadiens, écrivait-il. Agir autrement mettrait en péril l'avenir de nos marques dans notre marché. Jusqu'à ce que le problème de la contrebande soit résolu, un volume croissant de nos ventes au Canada sera exporté, puis reviendra au pays par la voie de la contrebande afin d'être vendu ici. »

[“*Tobacco companies used retailers to have taxes lowered.*”]

■ In the '90s, it was Big Tobacco that fuelled the contraband crisis.

In fact, during the early '90s, it was none other than the Canadian tobacco industry who supplied contraband networks with millions of cigarettes, by “exporting” them to duty-free warehouses in the United States. During this time, the Canadian Tobacco Manufacturers Council misled governments by insisting that this contraband was the result of organised crime.

³ Dennis Buechert, “Les dépanneurs craignent la faillite : les nouveaux paquets de cigarettes seraient trop repoussants,” *Le Soleil* (Quebec, June 6 2002).

⁴ Michel Gadbois, President/Director General of the Quebec Food Retailers Association, editorial: “Veut-on tuer les dépanneurs?,” *La Presse* (Montreal, May 14 1999).

⁵ Jean-François Cadieux, “Le gouvernement arnaque les dépanneurs,” *La tribune de Sherbrooke* (Sherbrooke, August 22 2001).

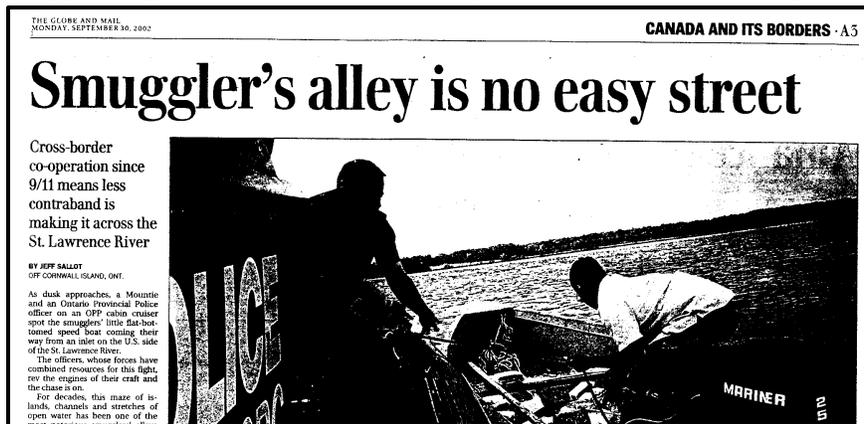
⁶ André Noël, “Les compagnies de tabac ont utilisé les commerçants pour faire baisser les taxes,” *La Presse* (Montreal, December 1 1999).

Subsequent investigations conducted by authorities generated sufficient evidence to convince the Federal Government to file suit against JTI Macdonald and the Canadian Tobacco Manufacturers Council in the United States under RICO statutes (*Racketeer Influenced and Corrupt Organizations Act*) for their complicity in contraband trafficking. This case is presently before the United States Supreme Court, who must decide on the jurisdiction of the American courts in this matter.

■ **The tobacco industry is no longer able to supply contraband markets.** The Federal Government introduced a series of measures in April 2001 to prevent the tobacco industry from generating contraband cigarettes, including a non-refundable export tax of \$35.00 per carton of 200 cigarettes (which makes smuggling ‘exported’ cigarettes back into Canada wholly unprofitable). Further, the risk of legal proceedings and the ongoing investigations being conducted into the role tobacco companies played in contraband trade also serve as important deterrents.

■ **According to media reports, all contraband cigarettes seized to date were produced by aboriginals.** Radio-Canada (CBC Radio’s French-language station) recently aired a report that showed that the seized contraband cigarettes originated from a small warehouse concealed behind a garage. It is absolutely ridiculous to imagine that the amount of cigarettes supplied by this type of small business could possibly rival those produced by the large Canadian tobacco companies. This being said, authorities must not allow one of the most important public health policies put in place by Federal and provincial governments to be undermined in any way.

■ **It would be impossible to supply the same amount of contraband tobacco.** The alarmist headlines could easily lead the public to believe that the resurging contraband is comparable to the amounts of illegal cigarettes sold in the ’90s. But without the industry’s complicity, it would be physically impossible for First Nations reserves to supply even a small fraction of the same amount of contraband. For example, in 1993 the Canadian tobacco industry “exported” between 13 and 20 billion cigarettes that were subsequently found on the Canadian black market, primarily in Quebec and Ontario.⁷ If one estimated that a smuggler’s speedboat contains an average of 10 cases of 10,000 cigarettes, it would take 100,000 trips, or 300



trips per night for 300 nights to supply less than 10 billion cigarettes. And this is not counting the loading and unloading of the cargo to all the points of sale... and all this under the watchful eyes of the newly consolidated surveillance teams composed of both American and Canadian police forces!⁸ The logistics alone would be mind-boggling.

■ **The reduction in sales at convenience stores is due to lower smoking rates, not to contraband cigarettes.** According to Health Canada, tobacco use in Quebec fell from 38% in 1994 to 24% in 2001. This reduction is due in large part to the series of tobacco reduction measures implemented by Federal and provincial governments over the past few years: restrictions on promotion, banning tobacco use in all workplaces, new graphic warnings on cigarette packs, financial support for nicotine replacement therapies, and progressive tax hikes on tobacco.

⁷ “Surveying the Damage: Cut-rate tobacco products and public health in the 1990s,” public report published by the Non-Smokers’ Rights Association, the Quebec Coalition for Tobacco Control (*Coalition québécoise pour le contrôle du tabac*), Doctors for a Smoke-Free Canada, and the Canadian Cancer Society (October 1999).

⁸ Jeff Sallot, “Smugglers alley is no easy street,” *Globe and Mail* (Toronto, September 30 2002).

Further, part of the reduction in sales at convenience stores may be due to the fact that increasing numbers of smokers are buying their cigarettes from larger retailers⁹ like supermarkets, which sell their cigarettes at about \$1 less per pack than convenience stores. If the Couche-Tard convenience store chain finds the price of cigarettes so high that “*smokers feel abused to the point of being willing to buy contraband cigarettes,*”¹⁰ they are always free to lower their prices, as have larger retailers. (It should also be noted that convenience store representatives voice no complaint when it is the tobacco industry that raises cigarette prices, which they did this past September 23rd – by \$1.01 per carton.)

In fact, since the tax hike of \$9.09 per carton in June 2002, the Government of Quebec took in \$31 million more in tobacco taxes than anticipated, and this despite a reduction in consumption of 11% linked to the tax hike.¹¹ (By definition, these revenues derive from legal sales, including sales of new “discount” cigarettes, since taxes apply to these as well.)

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ACTUALITÉS

TAXE SUR LE TABAC

Québec encaisse plus que prévu

DENIS LESSARD

QUÉBEC – Le gouvernement Landry est formel. Même si les propriétaires de dépanneurs poussent les hauts cris, il n'y a pas de recrudescence de la contrebande de cigarettes à la suite de la dernière hausse de taxe.

Les deux ordres de gouvernement déclinent alors ensemble d'une hausse draconienne des taxes, la cartouche de cigarette augmentant subitement de 9,09 \$ – 9 \$ de plus pour Québec et 9,50 \$ de plus pour Ottawa, plus 59 cents de TPS.

Subitement, le prix de la cartouche dépassait le niveau atteint au plus fort de la crise de la contrebande en février 1994 – on payait alors 47 \$ la cartouche en moyenne.

Dans l'ensemble, les recettes provenant du tabac ont augmenté, de façon surprenante, de 43% par rapport aux prévisions du budget de mars – avant la hausse draconienne de juin. On prévoyait alors que le tabac ferait entrer 732 millions de recettes en 2002-2003, une prévision portée à 937 millions il y a deux semaines.

Pour Québec, c'est cette stabilité des revenus tirés des produits du

les manufacturiers avaient maintenu leurs ventes en alignant vers les États-Unis une proportion importante de leur production, sachant bien qu'elle traversait la frontière, exempte de taxes. Depuis, Ottawa impose au manufacturier toutes les taxes, qui sont remboursées par la suite, sur la marchandise vendue à l'étranger. Résultat net : il n'y a presque plus de cigarettes canadiennes vendues

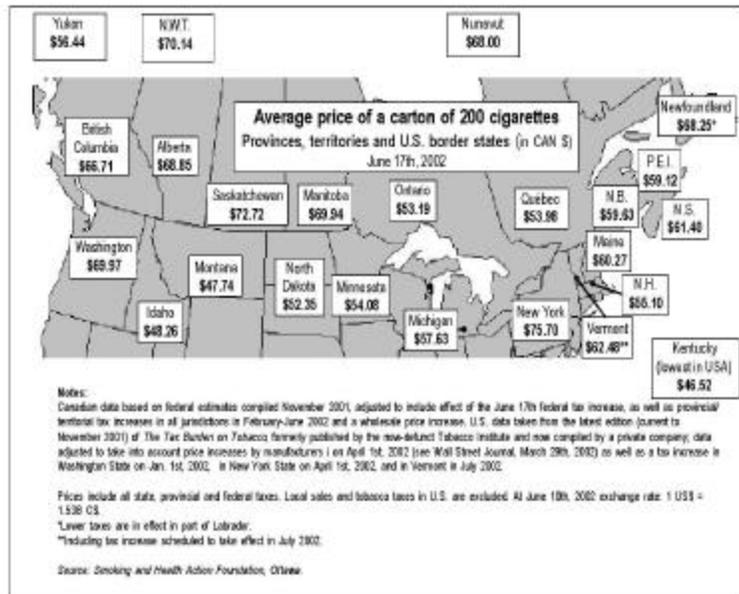
qu'on peut vérifier la situation. Or, selon la Sûreté du Québec, aucune explosion de contrebande (cette contrebande n'arrive ce que deviennent les dépanneurs).

Pour les hauts dépanneurs, la baisse des ventes de cigarettes dans les dépanneurs peut s'expliquer en bonne partie par le fait que de plus en plus de consommateurs achètent leurs cigarettes dans des grandes surfaces.

[“*Quebec takes in more than anticipated. Quebec City – The Landry government is adamant: despite the protests of convenience store owners, there was no resurgence of contraband cigarettes after the last tax hike.*”]

■ There is no contraband problem in other provinces... where tobacco is considerably more expensive.

Quebec and Ontario still have the least expensive prices in Canada. The gap between cigarette prices in Quebec and the average price in other provinces is over \$10. And yet there is no apparent contraband crisis in any of the other provinces, including Ontario. Why is it that this phenomenon only seems to surface in Quebec? Good question.



■ **Taxes must be raised, not lowered.** Tax hikes are among the most effective measures for reducing tobacco use, particularly among youth. Moreover, increased taxes simultaneously increase government revenue and produce medium- and long-term savings for the health system. In order to simply reach the *average* Canadian price of cigarettes, Quebec must increase taxes by another \$10 per carton. The World Bank rightly states: “*while smuggling is undoubtedly a serious problem, ... the appropriate response to smuggling is not to reduce tax rates or forego tax increases. Instead, it is more appropriate to crack down on crime.*”¹²

⁹ According to public servants at the Quebec Ministry of Finance, cited in an article by Denis Lessard, “Québec encaisse plus que prévu,” *La Presse* (Montreal, September 30 2002).

¹⁰ Alain Bouchard, President of Alimentation Couche-Tard, “Le président de Couche-Tard en veut à Ottawa et Québec,” *La Presse* (Montreal, September 26 2002). [“*les fumeurs se sentent abusés au point d’acheter leurs cigarettes en contrebande*”]

¹¹ Denis Lessard, “Québec encaisse plus que prévu,” *La Presse* (Montreal, September 30 2002).

¹² The World Bank Group report, “Curbing the Epidemic - Governments and the Economics of Tobacco Control,” 1999.