

Form 11
Alberta Rules of Court
Rule 3.31
CLERK OF THE COURT
FILED
MAR 31 2016
JUDICIAL CENTRE
OF CALGARY

COURT FILE NO. **1201-07314**
COURT **Court of Queen's Bench of Alberta**
JUDICIAL CENTRE **CALGARY**
PLAINTIFF **HER MAJESTY IN RIGHT OF ALBERTA**

DEFENDANTS **ALTRIA GROUP, INC., B.A.T. INDUSTRIES P.L.C., BRITISH AMERICAN TOBACCO (INVESTMENTS) LIMITED, BRITISH AMERICAN TOBACCO P.L.C., CANADIAN TOBACCO MANUFACTURERS COUNCIL, CARRERAS ROTHMANS LIMITED, IMPERIAL TOBACCO CANADA LIMITED, JTI-MACDONALD CORP., PHILIP MORRIS INTERNATIONAL, INC., PHILIP MORRIS USA, INC., R.J. REYNOLDS TOBACCO COMPANY, R.J. REYNOLDS TOBACCO INTERNATIONAL, INC., ROTHMANS BENSON & HEDGES INC. and ROTHMANS INC.**

DOCUMENT **STATEMENT OF DEFENCE**

PARTY FILING THIS DOCUMENT **ALTRIA GROUP INC.**

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I. INTRODUCTION

1. The defendant Altria Group, Inc. ("**Altria**") denies, or where applicable does not admit, the allegations in the Statement of Claim, unless expressly admitted, and puts the Plaintiff, Her Majesty the Queen in right of Alberta (the "**Province**") to the strict proof thereof.

2. Altria admits the allegations contained in paragraphs 10, 19, and 38-39 of the Statement of Claim.

3. Altria denies the allegations contained in paragraphs 1-9, 18, 24, 32, 44-46, 50-109, 111-112, 118-120, 126-132, 135-142, and 144 of the Statement of Claim and further denies that the plaintiff is entitled to the relief sought in paragraph 144 of the Statement of Claim.

4. Altria has no knowledge in respect of the allegations contained in paragraphs 11-17, 20-23, 25-31, 33-37, 40-43, 47-49, 110, 113-117, 121-125, 133-134, 143 of the Statement of Claim.

II. SUMMARY OF CLAIM

5. Altria denies the allegations in paragraph 1 in the Statement of Claim and denies the Province's ability to seek relief or recover the cost of health care benefits described in paragraph 1 of the Statement of Claim (the "**Claimed Cost**") from Altria, except that Altria admits that this action is brought pursuant to the provisions of *Crown's Right of Recovery Act*, SA 2009, c C-35 (the "**Act**").

6. Altria admits only that the Statement of Claim states the definitions referred to in paragraph 2 of the Statement of Claim for the purposes of the Statement of Claim but not otherwise.

7. Altria admits that U.S.-sourced tobacco products manufactured by Philip Morris USA Inc. (or its corporate predecessors, collectively "**PM USA**") accounted for less than 0.1% of all duty-paid cigarettes sold in Canada from the early 1960s until 1989. Altria denies the remaining allegations in paragraphs 3-5 of the Statement of Claim. Specifically, Altria denies that it has committed any tobacco related wrong, breached any common law, equitable or statutory duty as alleged in the Statement of Claim or at all. Altria further states that:

- (a) In all of the circumstances, Altria did not manufacture a defective product, and did not fail to warn, unlawfully sell or market to children and adolescents, make any deceitful or negligent misrepresentations, contravene any consumer protection or competition legislation, or take part in any conspiracy, concerted action or common design as alleged or at all. At all times, Altria conducted itself in accordance with appropriate business practices and in compliance with the applicable common law, equitable and statutory duties governing its conduct.
- (b) In addition, a significant and growing proportion of the Canadian cigarette market is supplied by manufacturers other than those identified in the Statement of Claim. Specifically, manufacturers located on Indian reserves (the "**Aboriginal**

Manufacturers") produce, promote and provide cigarettes to numerous consumers across Canada. Vendors selling cigarettes produced by the Aboriginal Manufacturers routinely fail to collect the federal and provincial taxes applicable to sales to non-Indian purchasers, creating a substantial incentive for non-Indians to purchase cigarettes from these manufacturers instead of the manufacturers identified in the Statement of Claim. Additionally, cigarettes produced by the Aboriginal Manufacturers dominate the market for contraband cigarettes in Canada. As a result, a significant fraction of the cigarettes consumed in Canada are not supplied by manufacturers identified in the Statement of Claim- but rather by the Aboriginal Manufacturers.

- (c) In particular, Altria denies that any breach of duty by Altria caused persons in Alberta to start or continue to smoke cigarettes or be exposed to cigarette smoke from cigarettes manufactured or promoted by it.
- (d) Without limiting the generality of the foregoing, Altria specifically denies that it has breached any common law, equitable or statutory duty or obligation owed to persons in Alberta as alleged in the Statement of Claim. Altria specifically denies that any such alleged breach of duty or obligation caused any population of insured persons to smoke cigarettes or to continue to smoke cigarettes.

8. Altria admits that cigarette smoking causes or contributes in some smokers to certain tobacco-related diseases, but denies the remaining allegations in paragraph 6 of the Statement of Claim. Altria further pleads and relies on paragraph 48 hereof.

9. Altria denies the allegations in paragraphs 7-8 of the Statement of Claim.

III. THE DEFENDANTS

10. Altria denies the allegations in paragraph 9 of the Statement of Claim. Altria further states that it is a holding company which has never engaged in the manufacture of tobacco products as defined in the Act and has never engaged in the promotion of tobacco products in Canada. Furthermore, U.S.-sourced tobacco products manufactured by PM USA accounted for less than 0.1% of all duty-paid cigarettes sold in Canada from the early 1960s until 1989, after which time U.S.-sourced products were no longer offered for sale in the Canadian duty-paid market. Further, tobacco products manufactured in the U.S. by PM USA for the Canadian duty-

free market were provided for sale only to individuals leaving Canada and had to be taken out of the country immediately after purchase. To the very limited extent that cigarettes manufactured by PM USA were ever offered for sale in Canada, Altria states that such cigarettes were at all material times a legal product sold in compliance with all applicable laws. Altria further states that it has no knowledge as to the truth of the allegations made with respect to other defendants.

11. Altria admits that Altria Group, Inc. (previously known as Philip Morris Companies Inc.) is a Virginia corporation with a registered office at 6601 West Broad Street, Richmond, Virginia.

12. Altria has no knowledge of the allegations in paragraphs 11-17 of the Statement of Claim and therefore denies the same.

13. Altria denies the allegations in paragraph 18 of the Statement of Claim, but admits that Philip Morris International Inc. ("PMI") is a Virginia company with offices located at 120 Park Avenue in New York, New York.

14. Altria admits that Philip Morris USA, Inc. is a Virginia corporation with offices at 6601 West Broad Street in Richmond, Virginia.

15. Altria has no knowledge of the allegations in paragraphs 20-23 of the Statement of Claim and therefore denies the same.

16. Altria denies the allegations in paragraph 24 of the Statement of Claim.

17. Altria has no knowledge of the allegations in paragraphs 25-29 of the Statement of Claim and therefore denies the same.

18. Altria admits that Rothmans, Benson & Hedges Inc. ("**RBH**") was created through the amalgamation of Benson & Hedges (Canada) Inc. and Rothmans of Pall Mall Limited in 1986. Altria has no knowledge of the remaining allegations in paragraph 30 of the Statement of Claim and therefore denies the same.

19. Altria has no knowledge of the allegations in paragraph 31 of the Statement of Claim and therefore denies the same.

20. Altria states that between 1986 and March 2008, corporate entities related to Altria Group, Inc. held a 40% ownership interest in RBH. Altria further states that it and PM USA have

had no corporate affiliation with PMI since a March 28, 2008 spinoff. Altria has no knowledge of the remaining allegations in paragraph 32 of the Statement of Claim and therefore denies the same.

21. Altria has no knowledge of the allegations in paragraphs 33-37 of the Statement of Claim and therefore denies the same.

22. Altria admits the allegations in paragraph 38 of the Statement of Claim.

23. Altria admits the allegations in paragraph 39 of the Statement of Claim. For clarification, Altria states that, from 1987 until 2008, PMI was a subsidiary of Philip Morris Companies Inc. (now Altria Group, Inc.).

24. Altria has no knowledge of the allegations in paragraphs 40-43 of the Statement of Claim and therefore denies the same.

25. Altria denies the allegations in paragraphs 44-45 of the Statement of Claim. Altria states additionally that paragraphs 44-45 of the Statement of Claim purport to collectively categorize separate entities as certain "Groups" or "Lead Companies", and Altria denies that such characterization is accurate, proper or has any legal significance whatsoever relevant to the Province's claims or the Province's ability to seek relief or recover the Claimed Cost from Altria.

26. Altria denies the allegations in paragraph 46 of the Statement of Claim. To the extent that companies may have had policies in common with Altria in relation to smoking and health, such common policies were developed for appropriate business purposes and were lawful. In further answer, Altria states that:

- (a) while its corporate affiliates had a corporate relationship over the years with RBH, at all material times, operating decisions were made in Canada by RBH, and RBH arrived at its own positions on smoking-related issues;
- (b) it never entered into a conspiracy or common design with the Defendants PMI, PM USA, or RBH, or any other defendant in this action;
- (c) It never acted in concert with the Defendants PMI, PM USA, or RBH, or any other defendant in this action;
- (d) RBH was never the agent of Altria; and

(e) Altria never directed the activities of RBH or any other defendant in this action.

27. Altria has no knowledge of the allegations in paragraphs 47-49 of the Statement of Claim.

28. Altria denies the allegations in paragraph 50 of the Statement of Claim.

IV. TOBACCO-RELATED WRONGS COMMITTED BY THE DEFENDANTS

29. Altria denies the allegations in paragraph 51 of the Statement of Claim and pleads and relies on paragraphs 30, 31, 32 and 54 hereof.

IV. BREACH OF DUTY NOT TO MISREPRESENT OR DECEIVE

30. Altria denies the allegations in paragraphs 52-53 of the Statement of Claim. No representations were made by Altria at any time which were false or made with willful blindness or recklessness as to their truth or falsity. Further, Altria states that it never represented that any tobacco products were less hazardous than any others, and that any tobacco products manufactured by PM USA and sold in Canada were labelled consistently with all applicable federal and provincial legislation and regulations and with the voluntary advertising code, to the extent that its products were ever subject to such legislation or regulations or to the voluntary advertising code. Altria pleads and relies on paragraphs 30, 31, 32 and 54 hereof.

V. BREACH OF DUTY OF CARE

31. In answer to the allegations in paragraphs 54-56 of the Statement of Claim, Altria states that it does not manufacture, advertise, market, distribute or sell cigarettes in Alberta. Altria denies the allegations in paragraphs 54-56 of the Statement of Claim and, in further answer, states that the allegations in paragraph 55(e) disclose no cause of action and are frivolous and vexatious. Altria pleads and relies on paragraphs 30, 31, 32 and 54 hereof, and states that it complied with all applicable common law, equitable, and statutory duties that govern its conduct. Altria further states:

(a) To date, there are no technologically possible and commercially feasible features that could potentially reduce the harm of cigarette smoking that could have been incorporated into the design or manufacture of traditional cigarettes that have not been so incorporated. Notwithstanding its efforts and numerous

advancements in scientific knowledge on the subject of smoking and health, no entity has yet been able to produce a commercially viable traditional cigarette that is free of health risks.

- (b) At all material times, the federal government has directed and supported the manufacture and sale of cigarettes in Canada, and set the standard of care required for cigarette manufacturers. As part of its direction and supervision of the cigarette industry, the federal government (among other things):
 - (i) Researched and developed strains of tobacco which became effectively the only varieties available for use in Canadian cigarettes;
 - (ii) Advised manufacturers on the necessity and efficacy of printed package warnings, as well as their content; and
 - (iii) Advised and directed manufacturers on the need to develop and promote lower-yield cigarettes.
- (c) Beginning in the 1950s, the government and public health community called for and otherwise encouraged the development and marketing of lower tar cigarettes. During this time, consumer demand also increased for lower tar cigarettes.
- (d) Altria cooperated with the government and health community and complied with all common law, equitable and statutory duties that governed its conduct at all material times.
- (e) At all material times the Province informed the public within Alberta of the risks associated with smoking cigarettes.
- (f) At all times the Province alone had the obligation to enforce all relevant statutes and regulations pertaining to the sale of cigarettes to under-aged smokers, as defined from time to time by statutes or regulations, and failed to do so.
- (g) In further answer, Altria admits that it has been unlawful to sell cigarettes to persons under a certain age. Notwithstanding those laws, some persons under a

certain age have smoked. Further, Altria has never targeted under-aged smokers or non-smokers.

VI. BREACH OF DUTY TO WARN

32. Altria denies the allegations in paragraphs 57-59 of the Statement of Claim. Altria pleads and relies on paragraphs 30, 31, 32 and 54 hereof and further states that it complied with all common law, equitable and statutory duties that governed its conduct at all material times. Further, Altria states that cigarettes manufactured by PM USA and sold in Canada were labelled consistently with all applicable federal and provincial legislation and regulations and with the voluntary advertising code, to the extent that its products were ever subject to such legislation or regulations or to the voluntary advertising code. Specifically, by 1972, the voluntary advertising code adopted by certain Canadian cigarette manufacturers required package warnings concerning the health risks of smoking. Prior to 1972, representatives of the federal government had advised against package warnings concerning health risks, on the ground that such risks were already well-understood and written warnings would only confuse the public. Package labels subsequently disclosed tar and nicotine levels by 1976. Thereafter, health warnings on cigarette packaging became increasingly prominent, in accordance with increasing federal and provincial legislation and regulation. By 2000, federal regulations required rotating graphic health warnings to cover at least 50% of cigarette packaging.

VII. DECEPTIVE MARKETING PRACTICES – COMPETITION ACT (CANADA)

33. Altria denies the allegations in paragraphs 60-63 of the Statement of Claim, and in further answer, repeats paragraphs 30, 31, 32 and 54 hereof.

VIII. UNFAIR TRADING PRACTICES – FAIR TRADING ACT (ALBERTA)

34. Altria denies the allegations in paragraphs 64-75 of the Statement of Claim, and in further answer, repeats paragraphs 30, 31, 32 and 54 hereof.

IX. CONSPIRACY

35. Altria denies the allegations in paragraphs 76-80 of the Statement of Claim. Altria further states that:

- (a) It conducts business in a highly regulated industry which leads, in some instances, to uniformity and consistency in the industry's manufacturing, packaging and promotional activities;
- (b) It conducted itself at all times in accordance with appropriate business practices and in compliance with any applicable common law, equitable, and statutory duties that governed its conduct;
- (c) In answer to the allegation that unlawful acts were committed by Altria in furtherance of an alleged conspiracy, Altria repeats paragraphs 6 to 34 hereof, and in particular, paragraphs 30, 31 and 32 hereof; and
- (d) Altria states that it never conspired or acted in concert or with a common design with any of the Lead Companies or defendants. Further, to the extent that other Lead Companies or defendants may have had policies in common with Altria in relation to smoking and health, those policies were developed for appropriate business purposes and were lawful. Altria further states that the risks associated with smoking have been widely known in Alberta, as elsewhere, for over 50 years, that information about the risks of smoking was communicated to persons in Alberta through a variety of sources and that Altria had no materially greater awareness of the potential health risks associated with smoking and of the fact that it may be difficult to stop smoking, than did persons in Alberta, the federal government, the Province and the public health community.

PARTICULARS OF CONSPIRACY - INTERNATIONALLY

36. Altria denies the allegations in paragraphs 81-103 of the Statement of Claim and repeats paragraphs 35 and 43 hereof.

PARTICULARS OF CONSPIRACY – INTERPROVINCIALY THROUGHOUT CANADA

37. Altria denies the allegations in paragraphs 104-109 of the Statement of Claim and repeats paragraphs 35 and 43 hereof.

38. Altria has no knowledge of the allegations in paragraph 110 of the Statement of Claim and therefore denies the same.

39. Altria denies the allegations in paragraphs 111-112 of the Statement of Claim and repeats paragraphs 35 and 43 hereof.

PARTICULARS OF CONSPIRACY AMONG AFFILIATED CORPORATIONS

B.A.T. Group

40. Altria has no knowledge of the allegations in paragraphs 113-117 of the Statement of Claim and therefore denies the same.

Rothmans Group

41. Altria denies the allegations in paragraphs 118-120 of the Statement of Claim and repeats paragraphs 35 and 43 hereof.

RJR Group

42. Altria has no knowledge of the allegations in paragraphs 121-125 of the Statement of Claim and therefore denies the same.

Philip Morris Group

43. Altria denies the allegations in paragraphs 126-130 of the Statement of Claim and repeats paragraph 35 hereof.

X. JOINT AND SEVERAL LIABILITY

44. Altria denies the allegations in paragraphs 131-132 of the Statement of Claim.

45. Altria has no knowledge of the allegations in paragraphs 133-134 of the Statement of Claim and therefore denies the same.

46. Altria denies the allegations in paragraphs 135-136 of the Statement of Claim and repeats paragraphs 35 and 43 hereof.

XI. THE CROWN'S COST OF HEALTH SERVICES

47. Altria denies the allegations in paragraph 137 of the Statement of Claim. Altria states that cigarette smoke contains numerous constituents, some of which are acknowledged by public health organizations, such as the U.S. Food and Drug Administration, Health Canada,

and the International Agency for Research on Cancer, to be hazardous to health. Altria denies that it has been aware at all times since 1950 that cigarette smoke contains the specific constituents listed in paragraph 137 of the Statement of Claim, or that all of those constituents cause or contribute to disease. Altria further states that, at all material times, persons in Alberta have been aware of the potential health risks associated with smoking and of the fact that it may be difficult to stop smoking. Further, at all material times, the federal government, the Province and the public health community have been aware of the potential health risks of smoking and of the fact that it may be difficult to stop smoking. The actions of, and information provided by the federal government, the Province and the public health community have reinforced the awareness of persons in Alberta with respect to cigarette smoking and its potential risks. At all material times, Altria had no materially greater awareness of the potential health risks associated with smoking and of the fact that it may be difficult to stop smoking, than did persons in Alberta, the federal government, the Province and the public health community.

48. Altria admits that cigarette smoking causes or contributes in some smokers to cancers of the lung, larynx, esophagus, bladder, kidneys, and pancreas; cardiovascular disease (myocardial infarction, coronary heart disease, and atherosclerosis); emphysema; chronic bronchitis; chronic obstructive pulmonary disease; cerebrovascular disease; and aortic aneurysms. Altria states that "stomach cancer" and "oral cancer" are relatively vague terms which might encompass a number of different and varied anatomical structures, but admits that smoking causes cancer in certain of the anatomical structures associated with the stomach and mouth. Altria denies that smoking causes or contributes to liver cancer; or uterine or cervical cancer. Altria states that "adverse reproductive outcomes" is a relatively vague term which might encompass a number of different and varied anatomical structures, but admits that smoking is associated with an increased risk of placental abruption, premature birth, sudden infant death syndrome, and intrauterine growth restriction; and that cigarette smoking causes lower infant birth weight in infants whose mothers were smokers during pregnancy. Altria further states that many other factors, whether environmental, physiological, genetic, or based upon lifestyle choices, can also have harmful effects on pregnancy. Altria also admits that smoking is associated with an increased risk of acute myeloid leukemia and Buerger's disease. Altria acknowledges that the Surgeon General's 2014 Report (entitled "The Health Consequences of Smoking – 50 Years of Progress") concluded that there is sufficient evidence to infer a causal relationship between smoking and low bone density in post-menopausal women, premature rupture of the membranes, placenta previa, cataracts, post-surgery

infections, peptic ulcers, reduced fertility (in females only), and increased morbidity and general deterioration of health, but Altria's position is that at this time, these conclusions are based on inadequate scientific support. Altria further states that diseases caused or contributed to by cigarette smoking are complex and may be caused or contributed to by many different factors, whether environmental, physiological, genetic or based upon lifestyle choices. Altria denies the remaining allegations in paragraphs 138-39 of the Statement of Claim.

49. Altria states that Altria is a holding company which has never engaged in the manufacture of tobacco products as defined in the Act and has never engaged in the promotion of tobacco products in Canada. Furthermore, U.S.-sourced tobacco products manufactured by PM USA, accounted for less than 0.1% of all duty-paid cigarettes sold in Canada from the early 1960s until 1989, after which time U.S.-sourced products were no longer offered for sale in the Canadian duty-paid market. Further, tobacco products manufactured in the U.S. by PM USA for the Canadian duty-free market were provided for sale only to individuals leaving Canada and had to be taken out of the country immediately after purchase. To the very limited extent that cigarettes manufactured by PM USA were ever offered for sale in Canada, Altria states that such cigarettes were at all material times a legal product sold in compliance with all applicable laws. Altria states that it has no knowledge as to the truth of the allegations made with respect to other Defendants and denies the allegations in paragraph 140.

50. Altria denies the allegations in paragraphs 141-142 of the Statement of Claim.

51. Altria has no knowledge of the allegations in paragraph 143 of the Statement of Claim and therefore denies the same.

XII. REMEDY SOUGHT

52. Altria submits that the Province is not entitled to the relief sought in paragraph 144 of the Statement of Claim and that the Statement of Claim should be dismissed with costs.

XIII. ANSWERS TO THE STATEMENT OF CLAIM AS A WHOLE

GENERAL DEFENCES

No cause of action

53. The Statement of Claim discloses no cause of action because:

- (a) there has been no pecuniary damage suffered by insured persons in respect of the "cost of health care benefits" as defined by the Act;
- (b) the statutory liability the Province alleges is an ex post facto attempt to make actionable conduct that was not actionable when it occurred;
- (c) if the Claimed Cost was incurred as alleged or at all, which is denied, it was incurred by the federal government by means of transfer payments, conditional grants and shared cost programmes, and not by the Province;
- (d) if the Province has incurred the Claimed Cost as alleged or at all, which is denied, the Claimed Cost was incurred to provide services to insured persons that the Province was and is required to provide pursuant to the *Alberta Health Care Insurance Act*, RSA 2000, c A-20, as amended, and any predecessor statutes; and
- (e) if the Province has incurred the Claimed Cost as alleged or at all, which is denied, the Claimed Cost was caused by the conduct and acts or omissions of the federal government and of the Province.

No breach of duty

54. In answer to the entire Statement of Claim, Altria repeats paragraph 10 hereof, and states:

- (a) Altria never owed nor breached a duty to persons in Alberta;
- (b) Altria conducted itself at all times in accordance with appropriate business practices and in compliance with the common law, equitable and statutory duties that governed its conduct; and
- (c) At all materials times, the manufacture, sale, advertising and promotion of tobacco products in Alberta and throughout Canada has been supervised, regulated and controlled by the Province and the federal government. The Province encouraged or participated in such supervision, regulation and control in Alberta either directly or indirectly through agreements, express or implied with the federal government. Together the said governments have defined and

delineated the duties of tobacco manufacturers in Canada including Alberta and have given advice, recommendations, directions and suggestions in relation to, inter alia:

- (i) the nature and scope of research into the properties of cigarettes to be undertaken by Canadian tobacco manufacturers;
- (ii) whether warnings of the health risks and addictive character of cigarettes should be provided to consumers;
- (iii) the content and placement of any such warnings to be provided;
- (iv) product modifications, including the development, manufacture, promotion, distribution and sale of cigarettes containing lower amounts of tar and nicotine as measured by standard smoking machines;
- (v) communications by Canadian manufacturers with consumers about the health risks and addictive character of cigarettes and their tar and nicotine content when measured by standard smoking machines; and
- (vi) the acceptability of the types of advertising and other forms of promotion that have been used in the past by Canadian manufacturers to promote the sale of their products.

No damage

55. In answer to the entire Statement of Claim, Altria states that:

- (a) if Altria breached any duty, as alleged or at all, which is denied, no such breach caused or contributed to the Claimed Cost as alleged or at all;
- (b) if the Province has incurred the Claimed Cost as alleged or at all, which is denied, the Claimed Cost was caused by, without limitation, one or more of the following:
 - (i) the requirement that the Province provide services to insured persons pursuant to the *Alberta Health Care Insurance Act*, RSA 2000, c A-20, as amended, and any predecessor statutes;

- (ii) the conduct and acts or omissions of the federal government and of the Province;
 - (iii) the conduct and acts or omissions of individual insured persons as further particularized herein; and
 - (iv) disease or risk of disease in individual insured persons unrelated to smoking cigarettes;
- (c) if the Province has incurred the Claimed Cost as alleged or at all, which is denied, the Claimed Cost is exceeded by the tax revenue received by the Province from the sale of cigarettes in Alberta so that no cost is ultimately incurred by the Province;
- (d) if the Province has incurred the Claimed Cost as alleged or at all, which is denied, the Claimed Cost is exceeded by monies received by the Province from the federal government by means of transfer payments, conditional grants and shared-cost programmes for the purpose of funding the Claimed Cost so that no cost is ultimately incurred by the Province; and
- (e) if the Province has incurred the Claimed Cost as alleged or at all, which is denied, the Claimed Cost was inflated by overbilling, waste, abuse, neglect and other misconduct by various of the Province, persons involved in the administration and delivery of health care benefits and insured persons.

Causation

56. Altria admits that smoking causes or contributes to disease. These diseases are complex and may be caused or contributed to by many different factors, including genetics, stress, excess weight, alcohol, environmental factors and other consumer products. If Altria breached any duties, as alleged or at all, which is denied, no such breach caused or contributed to:

- (a) any tobacco related disease in any insured person; or
- (b) any increased risk of tobacco related disease in any insured person.

Limitations

57. Altria pleads and relies upon the provisions of the *Limitations Act*, RSA 2000, c L-12, as amended, and any predecessor statutes, both in respect of the Province's claim and in respect of the health care costs of those persons on which the Province's claim is alleged to be based and calculated.

DEFENCES ARISING OUT OF THE PROVINCE'S CONDUCT AND KNOWLEDGE

General

58. The Province's claim to recover the Claimed Cost is subject to complete defences, by reason of information the Province knew or should have known, and the Province's own conduct, including:

- (a) the Province's knowledge of health risks associated with cigarette smoking;
- (b) the Province's licensing and regulation of the production, manufacture and sale of cigarettes, including its failure to enforce or implement such regulation to the extent constitutionally permissible;
- (c) the Province's voluntarily undertaking obligations to pay the cost of health care benefits allegedly caused or contributed to by cigarette smoking;
- (d) the Province's failure to establish or delay in developing, or both, policies and practices, including health care expenditures and taxation policies and practices, legislation and regulations, when the Province knew or should have known of the alleged risks and costs it alleges are caused or contributed to by cigarette smoking;
- (e) the Province's failure to fund, develop and implement health promotion and smoking cessation practices and policies, when the Province knew or should have known of the alleged risks and costs it alleges are caused or contributed to by cigarette smoking;
- (f) the Province's failure to take any steps prior to commencement of this action to attempt to recover the alleged cost of health care benefits by subrogation;

- (g) the Province's delay in implementing and failure to enforce laws prohibiting the sale to and use of cigarettes by people under the legal age for purchasing them as defined by law from time to time;
- (h) the Province's own decision to regulate many aspects of the tobacco business and to keep the largest portion of the proceeds from the sale of tobacco products;
- (i) the Province's taxation of cigarettes in excess of the cost (if any) of health care benefits allegedly resulting from tobacco related disease or the risk thereof; and
- (j) the Province's own breaches of its duty or duties to insured persons as particularized herein.

59. Altria pleads and relies on the *Tobacco and Smoking Reduction Act*, SA 200, c T-3.8, as amended, and any predecessor statutes and regulations.

60. At all material times, the sale, advertising, promotion and consumption of tobacco products have been legal in Alberta subject to certain exceptions and restrictions all of which have been fully complied with by Altria

61. At all material times, the Province, through its ministers, ministries, departments, servants and agents, has known as much regarding the material risks associated with smoking cigarettes as Altria

62. Despite its knowledge of risks associated with smoking cigarettes, the Province continued to license and regulate the production, manufacturing, advertising, promotion and sale of cigarettes in Alberta and to impose heavy taxation upon, inter alia, manufacturers, distributors and consumers of cigarettes.

63. The Province benefits from the taxes imposed on and in relation to the sale of cigarettes in Alberta, which results in complete mitigation of the claim. Altria pleads and relies on the *Tobacco Tax Act*, RSA 2000, c F-1, as amended, and any predecessor statutes.

64. Despite its knowledge of risks associated with cigarette smoking, the Province took no steps to restrict or limit the sale of cigarettes save for restrictions on sale to persons below a prescribed age and in that case, delayed in implementing such restrictions, and subsequently

took no reasonable steps to enforce them. Altria pleads and relies on the Tobacco and Smoking Reduction Act, SA 200, c T-3.8, as amended, and any predecessor statutes.

65. Despite its knowledge of risks associated with cigarette smoking, the Province voluntarily undertakes the obligation of paying for the costs of health care benefits including such costs it alleges are caused or contributed to by cigarette smoking and sets its taxation and health care policies accordingly.

66. Despite its knowledge of risks associated with cigarette smoking, the Province, at all material times, permitted the sale and consumption of cigarettes in Alberta and derived substantial revenue therefrom.

67. The Province is wrongfully attempting, by statute, to make conduct actionable which was not actionable at the time it occurred. As a result and because the Province waited for decades to commence a claim, Altria pleads that the Province's action should be dismissed on the basis of voluntary assumption of risk, laches, estoppel and the *Limitations Act*, RSA 2000, c L-12, as amended, and any predecessor statutes.

Voluntary assumption of risk

68. Altria repeats paragraphs 58 to 67 hereof and states that at all material times the Province has been aware of health risks associated with cigarette smoking. Accordingly, the Province voluntarily assumes such risks, whatever their extent, in incurring the costs it alleges are caused or contributed to by cigarette smoking.

Contributory negligence

69. Altria repeats paragraphs 58 to 67 hereof and states that if the Province has incurred the Claimed Cost as alleged or at all, which is denied, then the Claimed Cost was caused or contributed to, in whole or in part, by the acts or omissions of the federal government acting alone or as agent for or in concert with the Province, or due to the acts or omissions of the Province as pleaded herein, and not any act or omission of Altria. Altria pleads and relies upon the *Contributory Negligence Act*, RSA 2000, c C-27, as amended, and any predecessor statutes.

70. Altria repeats and relies on paragraphs 58 to 67 hereof and states that it was governments that decided many aspects of the tobacco business and who kept the largest

portion of the proceeds from the sale of tobacco products. To the extent insured persons, including under-aged persons, were not informed of the risks associated with smoking cigarettes or purchased low tar cigarettes as a result of a misrepresentation (all of which is denied), it is because the Province or the federal government, or both, failed to perform their obligations adequately.

The Province cannot profit from its wrongful conduct

71. Altria repeats paragraphs 35 to 43 and 58 to 67 hereof and states that the Province is barred from recovering any damages or costs it has suffered, the existence of which is denied, as any damages or costs flowed from its participation as set out herein in conduct which the Province itself alleges in the Statement of Claim constituted breaches of duty.

Legal and equitable bars

72. Altria repeats paragraphs 58 to 67 hereof and states that by reason of the facts set out therein and the knowledge, conduct and delay of the Province and the prejudice thereby caused to Altria, the Province is barred in law and in equity from advancing the claims made in the Statement of Claim against Altria. Altria pleads and intends to rely on the *Alberta Health Care Insurance Act*, RSA 2000, c A-20, as amended, and any predecessor statutes.

Mitigation

73. Altria repeats paragraphs 58 to 67 hereof and states in further answer to the whole of the Statement of Claim, if the Province has incurred the Claimed Cost, as alleged or at all, which is denied, the Province has failed to mitigate the Claimed Cost.

DEFENCES ARISING OUT OF INDIVIDUAL CONDUCT

General

74. In response to the whole of the Statement of Claim, if the Province has incurred the Claimed Cost as alleged or at all, which is denied, the Claimed Cost was caused by, and the Province's claim to recover the Claimed Cost is subject to complete defences by reason of the conduct of individual insured persons, including their voluntary decisions to commence or continue smoking with awareness of the associated risks.

75. All of the insured persons who smoke or have smoked cigarettes were aware or had been warned of risks associated with smoking.

76. Each insured person became aware or received warnings of risks associated with smoking by various means, including, without limitation, one or more of the following:

- (a) warnings, including on the packaging of cigarettes, as required from time to time pursuant to federal and provincial legislation and regulations and voluntary codes of compliance by Canadian tobacco manufacturers;
- (b) mandatory displays, signs and other warnings required by provincial legislation in premises where sales of cigarettes take place;
- (c) discussions and writing, including advertising, in all forms of media including newspapers, magazines, journals, television, movies and radio;
- (d) education programmes including courses, seminars and lectures and educational literature and other media;
- (e) oral and written warnings from physicians and other health practitioners;
- (f) oral and written warnings from family members, friends and other acquaintances; and
- (g) the common general understandings and historical beliefs about adverse health consequences attributed to cigarette smoking dating back hundreds of years.

77. By reason of the foregoing, Altria states that all of the insured persons who smoke or have smoked cigarettes were aware or had been warned of associated risks.

78. Each of those insured persons who commenced or continued to smoke cigarettes did so with awareness of the risks associated with smoking, and each such insured person voluntarily consented to accept such risks.

79. The cause in fact and in law of the commencement and continuation of the use of cigarettes by insured persons was a voluntary choice to smoke cigarettes with awareness of the associated risks. Altria had and has no legal duty to such persons, or alternatively, no legal duty to such persons that has not been fulfilled.

80. Altria denies that any insured persons began, continued, or were unable to cease smoking by reason of any of the alleged breaches of duty of Altria, or that any alleged breach of duty caused or contributed to any alleged tobacco related disease or increased costs of tobacco related disease in any insured person.

81. If the federal government did not act as an agent for or in concert with the Province, then to the extent insured persons were not adequately informed about the risks of smoking cigarettes or purchased low tar cigarettes as the result of a misrepresentation (all of which is denied), they did so as a result of the breach of duty owed to them by the federal government.

82. Finally, to the extent the Province incurred health care costs due to smoking by insured persons, which is denied, the cost was caused by Aboriginal Manufacturers who breached duties owed to insured persons by the way they packaged and sold their products.

Voluntary assumption of risk

83. Altria repeats paragraphs 74 to 82 hereof and states that at all material times individual insured persons were aware of health risks associated with cigarette smoking. Accordingly, such persons voluntarily assumed such risks, whatever their extent, when they decided to commence and continue smoking.

Contributory negligence

84. Altria repeats paragraphs 74 to 82 hereof and states that if the Province has incurred the Claimed Cost as alleged or at all, which is denied, then the Claimed Cost was caused or contributed to, in whole or in part, by the acts or omissions of individual insured persons as pleaded herein, and not any actor omission of Altria. Altria pleads and relies upon the provisions of the *Contributory Negligence Act*, RSA 2000, c C-27, as amended, and any predecessor statutes.

Legal and equitable bars

85. Altria repeats paragraphs 74 to 82 hereof and states that by reason of the facts set out therein and the knowledge and conduct of insured persons and the prejudice thereby caused to Altria, the Province is barred at law and in equity from advancing the claims made in the Statement of Claim against Altria

Limitations

86. Altria pleads and relies upon the provisions of the *Limitations Act*, RSA 2000, c L-12, as amended, and any predecessor statutes, in respect of the claims of any individual insured person upon which the Province's cause of action is alleged to rest.

87. Altria pleads and relies upon the limitation provisions in the *Competition Act*, RSC 1985, c. C-34, as amended, and any predecessor statutes.

Mitigation

88. Altria repeats paragraphs 74 to 82 hereof and states in further response to the whole of the Statement of Claim, that if the Province has incurred the Claimed Cost as alleged or at all, which is denied, individual insured persons have failed to mitigate the Claimed Cost.

XIV. RELIEF SOUGHT

89. The Defendant, Altria Group Inc., respectfully requests that this Honourable Court grant judgment:

- (a) dismissing the Plaintiff's claims and this Action;
- (b) awarding costs on such basis as this Honourable Court deems appropriate in the exercise of its discretion; and
- (c) granting such other relief as this Honourable Court deems just in the circumstances.