

# BUDGET 2021:

ADDRESSING THE UNHEALTHY ECONOMICS OF  
TOBACCO.

Submission to the House of Commons Standing Committee on Finance  
Pre-Budget Consultation  
August 2020

**ACTION ON SMOKING & HEALTH (ASH)**  
**COALITION QUÉBÉCOISE POUR LE CONTRÔLE DU TABAC**  
**PHYSICIANS FOR A SMOKE-FREE CANADA**

## RECOMMENDATIONS FOR BUDGET 2021

### The federal budget should address economic barriers to reducing smoking.

#### TAX MEASURES

**Recommendation 1:** Immediately increase the federal tobacco tax rate (or work with the provinces to collectively raise taxes) to ensure that the minimum combined federal and provincial tax on cigarettes or cigarette equivalents (like heat not burn or rolling tobacco) in **Canada is at least \$0.45 a cigarette** (\$90 per carton). Given their current low tax rates, Quebec and Ontario could be afforded until 2025 to reach the combined 90\$ tax rate.

**Recommendation 2:** Immediately impose a federal excise tax on vaping devices so as to reduce the likelihood of young people experimenting with and becoming addicted to these products. With a combined tobacco tax at \$90, the federal tax on vaping liquids should be in the \$1 to \$2 per ml range. Devices should carry a 20% sales tax.

#### PRICE MEASURES

**Recommendation 3:** Address tobacco industry pricing strategies that undermine tobacco taxes, and set an objective of a standardized price for tobacco.

#### REMOVE BARRIERS TO HEALTH POLICY

**Recommendation 4:** Implement a regulatory charge on tobacco manufacturers and distributors of \$100 million per year, with the revenues allocated to supporting a comprehensive tobacco control regulatory scheme in Canada, including support for activities undertaken by other levels of government and civil society partners.

**Recommendation 5:** Allocate the additional revenues from new tobacco taxes (estimated at more than \$2 billion) to programs aimed at phasing out contraband supply, reducing tobacco use and to ensuring this tax contributes positively to social and health equity.

**Recommendation 6:** Implement Extended Producer Responsibility for single-use plastics. \*

**Recommendation 7:** Address industry interference with tobacco policy.

---

\* The Coalition québécoise pour le contrôle du tabac's current mandate does not include environmental objectives. Therefore, the Coalition remains neutral on this specific recommendation.

## TAX MEASURES

### **Recommendation 1: Ensure tobacco taxes in Canada are equivalent to \$0.45 per cigarette.**

Tobacco use is a leading preventable cause of death and disease in Canada, responsible for about one in five deaths and one third of full-day hospitalization costs. [1] It is the greatest risk factor for the three first causes of death in Canada: cancer, cardiovascular disease and respiratory disease. Nicotine is a powerfully addictive substance, and more than half of those who are unable to quit will lose more than a decade of their life as a result of cigarette smoking. [2]

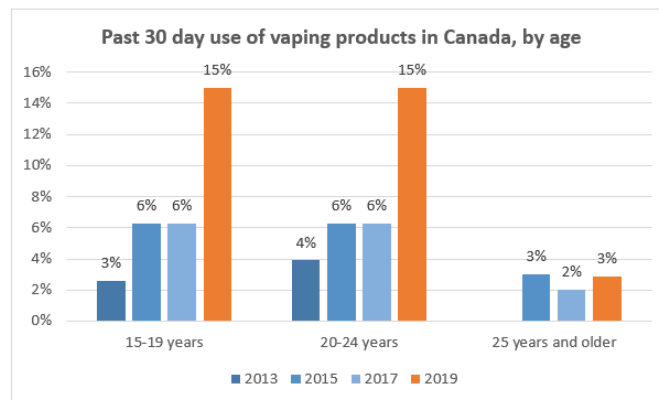
Among the most powerful policies that governments can adopt is to raise the price of tobacco products by implementing regular increases in tobacco taxes. The International Agency for Research on Tobacco concluded that there was strong evidence to show a relationship between increasing taxes and reducing tobacco use among adults and young people, and that such taxes have a larger impact with lower-income populations. [3] This means that higher tobacco taxes can help address disparities in smoking rates between lower and upper income Canadians. Children, adolescents and those living on poor incomes are most price-sensitive, and so benefit even more from tax policies which keep tobacco prices high.

With very different rates of taxes set by the provinces, the optimal role for the federal government is to raise taxes in those provinces which have failed to do so. This is consistent with the practice established in the 1990s for differing rates of federal tax across the country.

### **Recommendation 2: Impose a specific excise tax of \$15 per vaping device \$1 or more per ml of vaping liquid.**

In the two years since the federal government legalized and liberalized the sale of vaping products, tobacco companies have aggressively marketed these products to young people. As a result, use by Canadian high-school students has **more than doubled**. [3]

Manufacturers offer very low introductory prices or give these products away. Amendments to the federal Tobacco and Vaping Products Act, this cannot be passed quickly, but excise taxes can ensure a de facto minimum price to help protect young Canadians from a dangerous addiction. A tax rate of 1 to 2\$/ml would make the nicotine in vaping liquids considerably more expensive than it is currently and would not make them more expensive than the nicotine in cigarettes (with the 0,45\$/cigarette or tobacco stick tax rate).



Source: CTADS 2013, 2015, 2017; CTNS 2019

## PRICE MEASURES

### **Recommendation 3: Address tobacco industry pricing strategies that undermine tobacco taxes, and set an objective of standardizing the price for tobacco.**

Tobacco companies undermine tobacco taxes by manipulating the price of tobacco products and keeping prices of some brands and in some neighbourhoods artificially low.

Over the past 15 years Canadian tobacco companies have increased their control on and manipulation of cigarette prices. (Until a little more than a decade ago, tobacco companies sold each of their brands of manufactured cigarettes at the same price, and also at the same price as their competitors.)

By segmenting their brands into different price categories and by localizing prices through direct contracts with retailers, companies overcome many of the public health benefits of tax increases. Unlike taxes, which are a “one size fits all” approach applied equally across all brands, these price discounts can be targeted to specific groups of people, to selected neighbourhoods or for specified periods of time. Other governments, including France, Brazil and Japan, require uniform pricing for each brand. [4]

The discriminatory pricing practices they use to do this were made possible by the federal *Budget Implementation Act* in 2009. In reversing this measure the federal government should aim for a standardized price for tobacco products.

## REMOVING ECONOMIC BARRIERS TO HEALTH

### **Recommendation 4: Implement a regulatory charge on tobacco manufacturers and distributors of \$100 million.**

Federal government investments in tobacco control (\$60 million) are a very small fraction of the health care costs that result from smoking (\$6.1 billion). [5] Unlike other regulated industries, tobacco companies make no direct contribution to the regulatory or social costs associated with their business (the excise taxes on their products are paid for by smokers, not by the company). The federal government formerly imposed a 50% additional tax on the income from tobacco sales, but this *Tobacco Manufacturers Surtax* was rescinded in the 2017 budget. [6]

By imposing a fair regulatory charge on manufacturers, the government can ensure adequate funding for tobacco control and can internalize the regulatory burden in the tobacco market instead of imposing it on taxpayers.

Examples of modern cost-recovery programs are found in the United States and France.

- **User Fees in the United States of America.**  
The *U.S. Tobacco Control Act* authorizes the FDA to assess and collect user fees from tobacco manufacturers and importers, currently set at \$712 million. These funds support a wide range of tobacco regulation activities by the FDA. [7]
- **A social contribution from wholesale revenues in France.**  
In 2016, the French government included a charge of 5.6% on the revenues of

tobacco wholesale distributors as part of its budgetary measures. The revenue was assigned to a new tobacco control fund, which is now also used to address other addictions. Approximately 120 million euros in annual funding is available for community projects aimed at preventing smoking and substance abuse, helping smokers quit and reducing consumption of other psychoactive substances, addressing related social inequalities and supporting research. [8] [9]

**Recommendation 5: Allocate the additional revenues from new tobacco taxes (estimated at more than \$2 billion) to programs aimed at phasing out contraband supply, reducing tobacco use and to ensuring this tax contributes positively to social and health equity.**

The solution to illicit tobacco requires constructive engagement between Indigenous communities and other Canadian governments, and the willingness to invest in a solution to the specific and general conditions which fuel illicit sales.

**Recommendation 6\* : Implement Extended Producer Responsibility for single-use plastics used in tobacco and vaping products**

Tobacco waste (including electronic cigarette waste) is one of the primary sources of litter in Canadian urban and coastal environments. Budgetary measures to address single-use plastics should ensure that the manufacturers of this toxic source of waste are required to establish ways to mitigate and remove this pollutant.

The European Union recently adopted a *Directive on the reduction of the impact of certain plastic products on the environment*. [10] Under the directive, Member states are required to implement the directive measures by July 2021. The directive requires countries to require “conspicuous, clearly legible and indelible marking” on packaging, to require producers “to cover the costs of awareness raising measures, cleaning up litter resulting from these products, and the costs of data gathering and reporting” and to raise awareness with consumers. France, for example, has established authority to require manufacturers to fund the recovery of tobacco waste, [11] estimating it to be around 0.03 euro per package. [12]

**Recommendation 7: Address industry interference with tobacco policy.**

Tobacco companies have been allowed to influence federal tax policy.

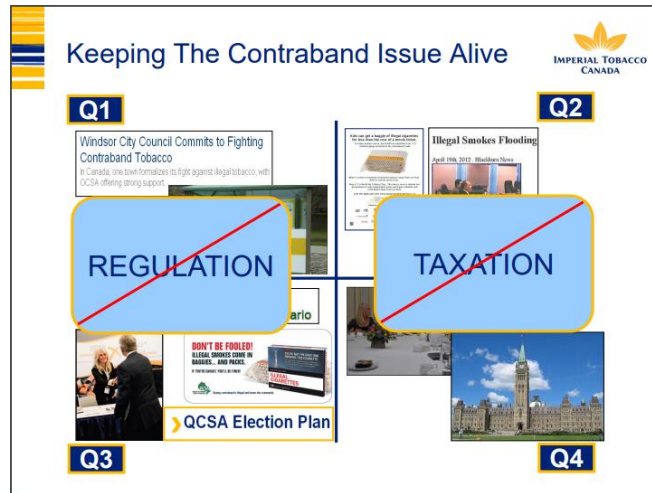
An obvious example of this are tobacco industry campaigns on contraband cigarettes, which are allowed to generate the impression that illicit tobacco sales are higher than they actually are, and that they represent a disproportionate threat to government revenues.

---

\* The Coalition québécoise pour le contrôle du tabac’s current mandate does not include environmental objectives. Therefore, the Coalition remains neutral on this specific recommendation.

Studies conducted by researchers who are not associated with the industry conclude that contraband sales are a problem – but not one that is disproportionate to illegal sales in other commodities or to tobacco sales in other countries. [13] [14] [15]

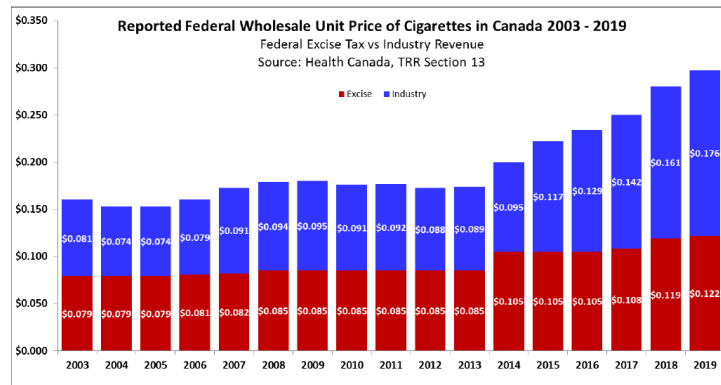
An internal (formerly secret) presentation from Imperial Tobacco Canada’s parent, British American Tobacco was leaked to health researchers illustrating their intention to exploit concerns about contraband to prevent tax increases. [16]



**This strategy has allowed them to keep taxes low, while raising their prices and revenues.**

Although federal tobacco taxes have increased over the two decades, the increase has not been large, especially compared with industry revenues as reported by Health Canada (see figure below). [17].

Federal taxes per cigarette have increased from \$0.79 in 2003 to \$0.124 in 2019 (57% before inflation, 17% after inflation). Industry revenues per cigarette have increased from \$0.081 in 2003 to \$0.176 in 2020 (217% before inflation, 63% after inflation).



**Canada’s obligations to protect tobacco taxation and other health policies from industry interference have not been met.**

In ratifying the Framework Convention on Tobacco Control, Canada undertook to protect public health from industry interference. More than 10 years later, there have been no publicized efforts to implement this obligation in departments outside the health ministry. [18]

## REFERENCES

- [1] Statistics Canada, "Smokers' use of acute care hospitals—A prospective study," 2009.
- [2] Coalition québécoise pour le contrôle du tabac, Fact Sheet, June 2015.
- [3] Physicians for a Smoke-Free Canada. , "First government survey since e-cigarettes were legalized suggests it is kids, not adult smokers, who have been most affected.," 2020.
- [4] Callard, C and Collshaw, N. "Cigarette pricing 1 year after new restrictions on," *Tobacco Control*, 2018.
- [5] Canadian Centre on Substance Use and Addiction , "Canadian Substance Use Costs and Harms 2015-2017," 2020.
- [6] Government of Canada , "Budget Implementation Act, 2017, No. 1 S.C. 2017, c. 20," 2017.
- [7] US Food and Drug Administration, "Tobacco Products. User Fees.," [Online]. Available:
- [8] Government of France , "LOI n° 2016-1827 du 23 décembre 2016 de financement de la sécurité sociale pour 2017 (1)".
- [9] France. Ministère des Solidarités et de la Santé. , "Fonds de lutte contre les addiction. June 2020."
- [10] European Union, "Directive (EU) 2019/904 of the European Parliament and of the Council of 5 June 2019 on the reduction of the impact of certain plastic products on the environment".
- [11] Government of France, "LOI no 2020-105 du 10 février 2020 relative à la lutte contre le gaspillage et à l'économie circulaire," 2020.
- [12] Government of France, "Etude d'Impact. Projet de loi relative à la lute contre le gaspillage et à l'économie circulaire".
- [13] E. Guindon et al. , "Levels and trends in cigarette contraband in Canada.," *Tobacco Control.*, 2016.
- [14] Finances Québec. , "Tax evasion in Quebec - Its sources and extent. Economic, fiscal and budget studies," 2005.
- [15] Statistics Canada, "The underground economy in Canada, 2013.," *The Daily.* , June 20, 2016.
- [16] British American Tobacco , "CORA AIT Strategy. Raising Public Awareness & Demanding Government Action," August 2012..
- [17] Health Canada Tobacco Control Directorate, "2019 Canadian Cigarette Market Update," 2020.
- [18] Canadian Cancer Society et al. "Canada's Implementation of Article 5.3 of the Framework Convention on Tobacco Control A Civil Society Shadow Report".