Physicians *for a* Smoke-Free Canada

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The Honourable Robert Speller
Minister of Agriculture and Agri-Food Canada
930 Carling Ave
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by fax: 759 1081

Mr. Minister,

I am prompted to write to you today by the inferred invitation in the minutes of the March 8, 2004 “Third Meeting of the Tobacco Roundtable”:

> *“Both Task Teams will work together to identify areas of common cause with possible allies, including some groups that are traditionally opposed to tobacco and smoking, and will begin the process of communicating with them.”*

The purpose of this letter is to offer a workable solution to the problem of how to wind up the Canadian tobacco farming industry in a manner that is orderly, fair and equitable.

The threat by Imperial Tobacco to withdraw top-up payments has exacerbated the major crisis threatening tobacco farming in Canada.

It should come as no surprise to you or anyone else that our major abiding concern is to reduce the death toll from tobacco – it currently stands at the unacceptable level of 47,000 deaths per year in Canada. That being said, however, we would support a tobacco industry-financed orderly phase-out of tobacco farming in Canada. We have no desire to see undue economic hardship imposed on tobacco farmers, nor economic havoc wreaked in the tobacco belts of south-western Ontario and Lanaudière in Quebec.

The key will be to provide for an orderly economic shutdown of tobacco growing over a period of five years with suitable transition payments to those exiting the industry.

Who will pay? We would propose that it be the Big Three tobacco companies. Over decades, they have created a dependence on subsidized exports through top-up payments. It will not be overly financially taxing for them to continue making payments to farmers at approximately the same level as in the past. The difference would be that the payments would go to support orderly exit from tobacco growing, not to subsidize exports.

Imperial Tobacco has suggested that the government could take over the business of subsidizing tobacco exports. However, this seems unworkable. It runs counter to Canada’s obligations under international trade agreements. In addition, we can expect that most Canadians would be outraged if any of their tax dollars went to prop up the continued growing of tobacco in Canada, a crop that every year kills about 60 Canadians per farm, plus an unknown additional number of people in other countries that buy our exported tobacco. In Canada and everywhere else, cigarettes will eventually kill half of their lifelong users.

We suggest the orderly phase-out of tobacco farming in Canada over five years in a three phase program, funded entirely by tobacco companies. At every stage, a publicly appointed review board that included representation from the public health community and public auditors, as well as the tobacco farming community, would monitor the operation of the program, and move quickly to correct any abuses. We estimate that the cost to the tobacco companies should be in the range of $60-$100 million per year for a total expenditure of $300-$500 million over five years. This is entirely affordable to the Big Three tobacco companies; it is approximately equal to what they have been paying in annual top-up payments over the last fifteen years.

It may be that, in spite of our best efforts to convince the tobacco companies to finance such a programme voluntarily, the companies refuse to do so. If this happens, then the government should run the program.

Even if the government is forced to run the program, it still should still be financed by tobacco companies. It is suggested that the existing surtax on tobacco (once called the Health Promotion Surtax) be increased so as to yield enough new revenue to offset the cost of tobacco phase-out program. The increase in the tobacco surtax will therefore be set so as to yield $100 million or more in new revenue per year. We should hold to the principle that the cost of the tobacco phase-out program will be entirely offset by new revenue generated by an increase in the surtax on tobacco.

We also need to learn the lessons from the last set of transition programmes that ran in the 1990s. Those programs cost the taxpayers about $100 million. The programs did assist in transition to fewer farmers, and we ended up with fewer, but larger tobacco farms. The result was that total crop size declined only slowly, much more slowly than the number of tobacco farmers.

This time, it is proposed that we construct a program with the single purpose of phasing out tobacco growing in Canada entirely in a manner that is orderly, fair and equitable. **Our phase-out program will require no new public money.** The rules will be simple, clear and will not invite abuse. Moreover, there will be public oversight that will nip any possible abuse in the bud, before it happens.

There are several ways that such a program could be constructed, one of which will be suggested below. Whatever the details of the phase-out program that may eventually be constructed, we would continue to support it if all of the following principles applied:

- The program will quickly phase out all tobacco growing in Canada in an orderly, effective and fair manner.
- The entire cost of the program will be borne by tobacco companies, either by direct voluntary payments or through a government-run program, the cost of which is entirely offset by revenue from new taxes on tobacco. Either way, there will be no net cost to taxpayers for the tobacco phase-out program.
- No public money will be spent to subsidize tobacco exports or continued tobacco growing in Canada.

Here is one suggestion of how these principles could be applied into a workable phase-out program.

Phase I – Retiring unused quota:

Quota currently not in use would be purchased at a fair price before September 1, 2004 and permanently retired. A suggested fair price would be the market price that existed in 1994, adjusted for inflation. Phase I payments would be deferred until after Phase II starts. Any outstanding unused quota that had not been retired by September 1, 2004 would be cancelled with no financial compensation

Phase II – Exit payments:

Phase II would begin in September, 2004 and would run until 2010. Once all unused quota had been retired or cancelled, farmers would be eligible to permanently retire their entire remaining quota. No partial retirement of active quota would be allowed. The only choices would be to retire 100% of active quota or delay participating in Phase II until a later date. Once they entered the program and retired their entire active quota, farmers would receive a fair payment, sufficient to help them retire existing debt and ease their transition into alternate economic activity. It is suggested that these payments average about $300,000 per farm, payable either as a lump sum or in instalments averaging about $150,000 each over two years. On closer economic analysis, the size of transition payment amounts may be adjusted up or down. The payments would also be based on the size of operation, with the larger, more heavily invested tobacco farms receiving proportionately larger payments.

The tobacco growing belt of south-western Ontario is blessed with a moderate climate, together with sandy and silt-loam soils well-suited to a wide variety of crops, particularly high-value horticultural crops. It also has strong manufacturing and service sectors, and untapped ecotourism potential, particularly in the Long Point area. The prospect of over $200,000,000 dollars in tobacco exit payments received by the 770 Ontario growers being re-injected back into the local economy over the next five years should further increase the economic health of this already prosperous region.

Generous exit payments to Quebec's 56 tobacco producers could also provide a much-needed boost to Quebec's tobacco-growing region, Lanaudière.

Phase III – Winding up the Marketing Boards:

In 2010, even if some farmers still have chosen not to sell their quota, the Ontario Flue-Cured Tobacco Growers' Marketing Board and L'Office des producteurs du tabac jaune would be formally wound up, their assets sold, their charters retired and the legislation that created them repealed. Any remaining tobacco farmers would have to take their chances in the open market.

We hope that you and your colleagues in the tobacco farming business agree that this proposal is reasonable, and that it would result in the orderly, fair and equitable phase-out of tobacco growing in Canada. If so, we would certainly be willing to make "common cause" with you to promote its early implementation.

Yours sincerely,

Neil E. Collishaw
Research Director