

# **A WIN-WIN: ENHANCING PUBLIC HEALTH AND PUBLIC REVENUE**

## **RECOMMENDATIONS TO INCREASE TOBACCO TAXES**

**A SUBMISSION TO:**

**THE HON. RALPH GOODALE, P.C., M.P.  
MINISTER OF FINANCE**

**JANUARY 2004**

**ENDORSED BY:**

## **CANADIAN COALITION FOR ACTION ON TOBACCO**

**ACTION ON SMOKING & HEALTH**

**CANADIAN CANCER SOCIETY**

**CANADIAN COUNCIL FOR TOBACCO CONTROL**

**CANADIAN DENTAL ASSOCIATION**

**COALITION QUÉBÉCOISE POUR LE CONTRÔLE DU TABAC**

**HEART AND STROKE FOUNDATION OF CANADA**

**NON-SMOKERS' RIGHTS ASSOCIATION**

**ONTARIO CAMPAIGN FOR ACTION ON TOBACCO**

**PHYSICIANS FOR A SMOKE-FREE CANADA**

**THE LUNG ASSOCIATION**

# EXECUTIVE SUMMARY

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Higher tobacco taxes are a win-win for public health and public revenue. Tobacco tax increases by federal and provincial governments in recent years have led to significant declines in smoking while at the same time greatly increasing government revenue. Additional increases in tobacco taxes should be implemented in order to further advance these dual objectives.

## ◆ Recommendations

1. Federal taxes on cigarettes should be increased by \$5.00 per carton of 200 cigarettes.
2. The loophole allowing lower taxes on tobacco sticks should be closed. Federal taxes on tobacco sticks should be increased by \$9.25 per 200 sticks (\$4.25 to close the loophole, plus \$5.00 to match the tax increase on cigarettes).
3. The loophole allowing lower taxes on roll-your-own tobacco should be closed. Federal tobacco taxes on roll-your-own should be increased by \$15.45 per 200 roll-your-own cigarette equivalents (100 g), (\$10.45 to close the loophole, plus \$5.00 to match the tax increase on cigarettes).
4. The tax rate increases applied to cigarettes, tobacco sticks and roll-your-own tobacco should also be applied to products sold in duty-free stores, as has been the practice for the last three federal tobacco tax increases. The tax rate increases should also be applied to the export tax.
5. Expenditures on tobacco advertising and promotion should no longer be deductible from the corporate income taxes paid by tobacco companies.
6. The surtax on tobacco company profits should be increased from 50% to 60%.

Implementation of recommendations 1-3 would increase federal government revenue by an estimated \$930 million per year, not including GST. We predict that the number of Canadians who smoke would decrease by an estimated 80,000, thus benefiting Canadian families and their communities.



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L'augmentation des taxes sur le tabac est une mesure gagnante, aussi bien pour la santé publique que pour le trésor. Au cours des dernières années, les taxes fédérales et provinciales plus élevées sur le tabac ont favorisé une baisse considérable du tabagisme tout en faisant augmenter de beaucoup les recettes gouvernementales. Il faudrait poursuivre cette politique, ce qui permettrait de faire avancer ces deux objectifs.

## ◆ **Recommandations**

1. Les taxes fédérales sur les cigarettes devraient être augmentées de 5 \$ la cartouche de 200 cigarettes.
2. Il faudrait éliminer l'écart entre les taxes sur les bâtonnets de tabac et les cigarettes. Pour ce faire, il faudrait augmenter les taxes fédérales sur les bâtonnets de 9,25 \$ par 200 bâtonnets (4,25 \$ pour combler l'écart et 5 \$ pour correspondre à l'augmentation des taxes sur les cigarettes).
3. Il faudrait éliminer l'échappatoire qui permet de moins taxer le tabac à rouler et augmenter les taxes fédérales de 15,45 \$ par 200 équivalents de cigarettes roulées (100 g), soit 10,45 \$ pour combler l'échappatoire, et 5 \$ pour correspondre à l'augmentation des taxes sur les cigarettes.
4. Les augmentations des taux d'imposition des cigarettes, des bâtonnets et du tabac à rouler devraient également s'appliquer aux produits vendus dans les boutiques hors taxes, comme on l'a fait à l'occasion des trois dernières augmentations de taxes fédérales sur le tabac. Ces augmentations devraient également s'appliquer à la taxe sur l'exportation.
5. Les dépenses consacrées à la publicité et à la promotion du tabac ne devraient plus être déductibles des impôts sur le revenu des sociétés commerciales versés par les compagnies de tabac.
6. La surtaxe sur les profits des compagnies de tabac devrait passer de 50 p. 100 à 60 p. 100.

La mise en vigueur des recommandations 1 à 3 permettraient d'accroître les recettes gouvernementales d'environ 930 millions de dollars par année, sans tenir compte de la TPS. Nous prédisons que le nombre de Canadiennes et de Canadiens qui fument baisserait d'environ 80 000, ce qui serait un bienfait pour les familles canadiennes et leurs collectivités.



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# INTRODUCTION

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## ◆ Canadians and their governments are committed to reducing tobacco use

Tobacco use is one of the most challenging health and social issues — and the leading preventable cause of disease, disability and death in Canada. In 1996, tobacco industry products killed more than 45,000 people in this country, accounting for an astonishing 21% of all deaths.<sup>1</sup> Health Canada estimates that in 1996, tobacco use caused \$4 billion in health care costs.<sup>2</sup>

Tobacco products cause cancer, heart attacks, strokes, emphysema, and numerous other diseases and afflictions. Exposure to second-hand smoke is harmful to non-smokers. Nicotine in tobacco products is highly addictive. The overwhelming majority of smokers begin as teenagers or pre-teens.

The health warnings required on Canadian cigarette packages (as shown in Appendix A) demonstrate the breadth of health problems caused by tobacco use.

Canadian governments have responded to the challenge of tobacco use and tobacco industry activities by adopting comprehensive and integrated legislative and programming measures. The Federal Tobacco Control Strategy, adopted in 2001, allocates more than \$400 million to Health Canada between 2001 and 2006 to support regulatory, legislative, policy and programme measures to reduce tobacco use and its consequent harms.

Increased taxes on cigarettes are a key component of a comprehensive tobacco policy and are recommended by a number of leading health authorities, including the World Health Organization and the World Bank.<sup>3</sup>

## ◆ Canada has made significant recent progress in reducing smoking

In recent years, Canada has made historic progress against tobacco use.

Per capita (age 15+) consumption of tobacco products fell by 23% in 1997-2002 inclusive as compared to 1996, including a very encouraging 9% decline in 2002<sup>4</sup>. Preliminary data indicate that the decrease in per capita consumption in 2003 was also significant. Per capita consumption is now lower than at any time since the 1930s.

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<sup>1</sup> Eva M Makomaski Illing and Murray J Kaiserman, "Mortality Attributable to Tobacco Use in Canada and its Regions, 1994 and 1996", in *Chronic Diseases in Canada*, 20:3 (2000). On-line at [http://www.hc-sc.gc.ca/pphb-dgspsp/publicat/cdic-mcc/20-3/b\\_e.html](http://www.hc-sc.gc.ca/pphb-dgspsp/publicat/cdic-mcc/20-3/b_e.html).

<sup>2</sup> Health Canada, "Regulatory Analysis Impact Statement" accompanying the *Tobacco Products Information Regulations, Canada Gazette Part II*, vol. 134, no. 15, July 19, 2000, p. 1749.

<sup>3</sup> See for example the World Bank publication *Curbing the Epidemic: Governments and the Economics of Tobacco Control*, Washington, 1999. Available on-line at <http://www1.worldbank.org/tobacco/reports.asp>.

<sup>4</sup> Statistics Canada, "Production and Disposition of Tobacco Products" Catalogue 32-022, annual, and population data. See Appendix B.

Given the highly addictive nature of tobacco products, the declines seen in consumption in the past few years represent an extraordinary success story — indeed, among the best performances by OECD countries in recent years.<sup>5</sup>

Health Canada surveys reveal significant reductions in smoking in all age levels and in both sexes.<sup>6</sup> The number of smokers has dropped by over 700,000 since 1999, and the number of “never” smokers among young Canadians has increased by over 150,000.

**Table 1: Results of Canadian Tobacco Use Monitoring Survey, 1999-2002<sup>7</sup>**

	1999	2000	2001	2002
Among Canadians over 15 years (000s)	24,260	24,580	24,916	25,251
◇ Percentage who smoke	25%	24%	22%	21%
◇ Number of smokers	6,122	6,007	5,412	5,414
◇ Number fewer Canadians smoking compared with 1999		114	710	708
Among Young Canadians (15-19 years old) (000s)	2,053	2,063	2,073	2,082
◇ Percentage who smoke	28%	25%	22.5%	22%
◇ Number who smoke	569	521	466	458
◇ Number who have never smoked	1,380	1,439	1,506	1,540
◇ Percentage who have never smoked	67%	70%	73%	74%
◇ Number fewer teenagers who smoke compared with 1999		48	104	111
◇ Number more teenagers who never smoked compared with 1999		60	126	160
Among children under 12 (000s)				
◇ Percentage exposed to cigarette smoke at home	26%	24%	19%	16%
◇ Number exposed to cigarette smoke at home	1,142	929	827	688
◇ Number fewer exposed to smoke at home compared with 1999		213	315	454
Number of cigarettes sold in Canada (billions)	51.4	49.5	48.2	45.5
Number fewer cigarettes per year smoked compared with 1999 (billions)		1.9	3.2	5.9

<sup>5</sup> The steepest year-over-year decline in recent memory was in New Zealand in 1989, when consumption dropped by more than 19% following a large tax increase in the middle of a recession. See New Zealand Department of Health, *Tobacco Facts — May 2002*, p. 29. Available on-line via <http://www.moh.govt.nz/phi/publications>.

<sup>6</sup> Health Canada, Canadian Tobacco Use Monitoring Survey, 1999-2002, annual. The data includes both daily and occasional smokers.

<sup>7</sup> All CTUMS population and prevalence data provided by the Tobacco Control Programme, Health Canada. Sales figures taken from Imperial Tobacco Annual Reports, 2000-2002. Imperial Tobacco provides estimates of total cigarette sales, including manufactured cigarettes, sticks and roll-your-own, and appears to assume that 0.6 g of roll-your-own is equivalent to one cigarette.

Provincial surveys confirm that teen smoking has recently begun to come down rapidly:

**Table 2: Youth smoking rates in Ontario and Québec, 1991-2002<sup>8</sup>**

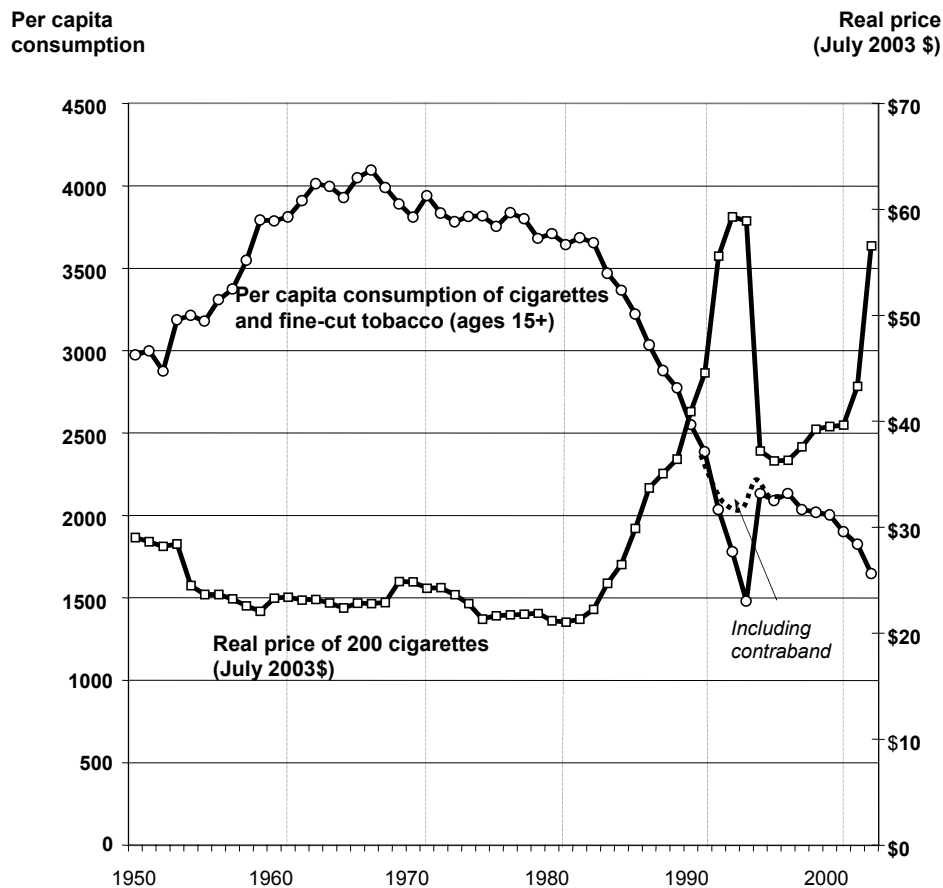
Year	Ontario (Grades 7-12)	Ontario (Grades 7, 9 and 11 only)	Québec (Sec. I - V, equivalent to grades 7-11)
1991		20.1%	
1993		23.4%	
1995		27.3%	
1997		27.2%	
1998			30.4%
1999	28.4%	26.6%	
2000			29.0%
2001	23.1%	21.2%	
2002			23.1%
2003	19.2%	17.4%	

The substantial decreases in smoking in recent years confirm that Canada's comprehensive tobacco control strategy is having an impact. Apart from tobacco tax increases, important elements include curbs on tobacco advertising, sponsorship and other promotion; the new picture-based package warnings; government mass media and other programming activities; restrictions on smoking in workplaces and public places; and other measures.

<sup>8</sup> Ontario figures from Centre for Addiction and Mental Health, *Drug Use Among Ontario Students, 1977-2002: Detailed OSDUS Findings*, available on-line at <http://www.camh.net/pdf/OSDUS03-drugdetail-final.pdf>. Data for grades 7-12 as a whole were not collected during 1991-1997. Québec figures from Institut de la statistique du Québec, "Smoking: Prevalences and Trends from 1998 to 2002: Smoking Decreases Among Youth", on-line at [http://www.stat.gouv.qc.ca/publications/sante/pdf/fascicule\\_tabac\\_an.pdf](http://www.stat.gouv.qc.ca/publications/sante/pdf/fascicule_tabac_an.pdf). Because of differences in methodology and age groups surveyed, results are not directly comparable between provinces.



**Figure 1:**  
**Real price vs. per capita consumption of cigarettes, Canada, 1949-2002**



Source data: See Appendices B and D.

### ◆ Tax increases have helped restore cigarette prices

Since early 2001, the average price of a carton of 200 cigarettes in Canada, as measured by Statistics Canada, has increased by \$27.62, from \$37.67 to \$65.29.<sup>9</sup> However, it should not be forgotten that the massive tax rollback in much of the country in February 1994 brought down the average price by \$23 per carton (in July 2003 dollars). In inflation-adjusted terms, we have only recently surpassed the price level of January 1994.

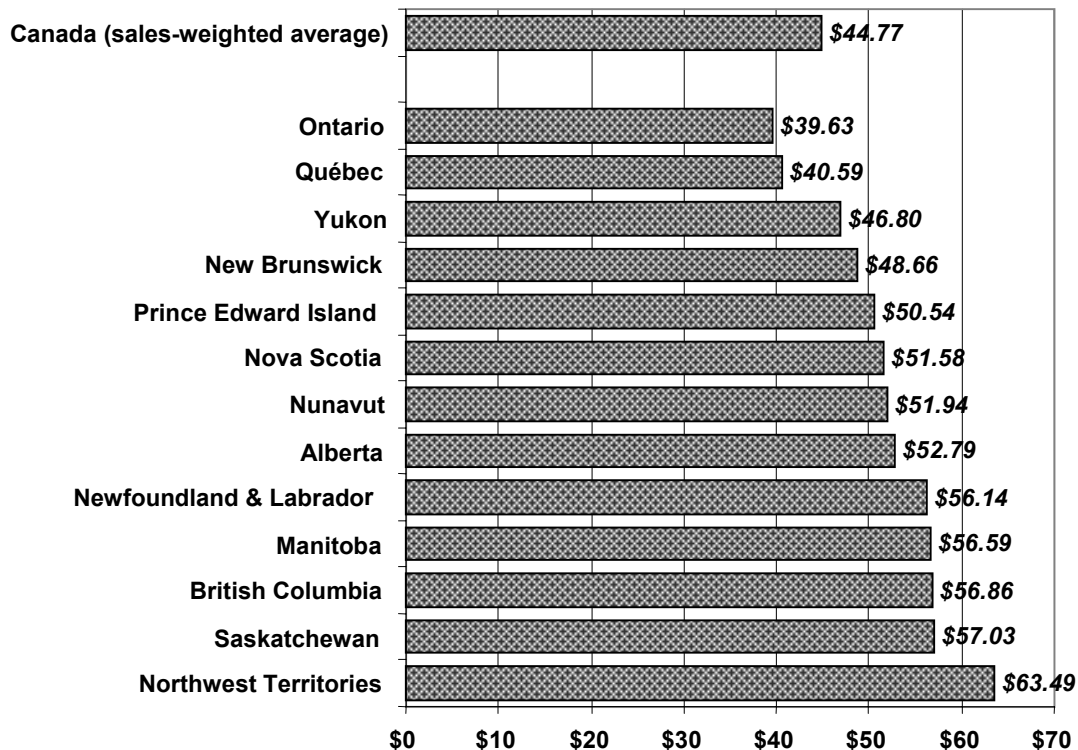
All Canadian jurisdictions (federal, provincial and territorial) have substantially increased their taxes at least once in the period from April 2001. (See Appendix C)

<sup>9</sup> Statistics Canada, CANSIM II, Table 326-0012 (200 cigarettes) and Table 326-0001 (Consumer Price Index, all items), in nominal (non-inflation-adjusted) dollars, January 2001 vs. November 2003. See Appendix E.

**Figure 2:**

**Tax levels by province/territory, December 2003**

Total federal and provincial tobacco taxes, including GST, PST and HST per 200 cigarettes



*Source data: See Appendix C*

Although many smokers think that cigarettes are more expensive now solely because of tax increases, at least one-quarter of the price increase is due to changes in the non-tax portion of the price, principally due to manufacturer price increases on at least five occasions. Tax increases account for 73% of the total cigarette price increase from January 2001 to July 2003.

Inter-provincial tax gaps remain large, still influenced by the impact of the 1994 tobacco tax rollback (see Figure 2, above). At that time, provincial and federal taxes in Québec were slashed by a total of \$21 per carton, followed closely by Ontario (\$19.20), PEI (\$18.50), and New Brunswick and Nova Scotia (\$14). In other provinces, the only cut was in the federal tax rate, by \$5 per carton. Despite tax increases in the low-tax region, the price gap across the Ontario-Manitoba border has actually widened somewhat since early 2001.

Because of these large differences in provincial tax rates, total tax incidence (the proportion of retail price accounted for by all taxes) varies widely, but the sales-weighted average for

Canada is about 66%. Federal tobacco taxes now account for less than 24% of the retail price of cigarettes, as compared to 31% prior to the 1994 tax rollback.<sup>10</sup>

## ◇ Tobacco revenues are increasing

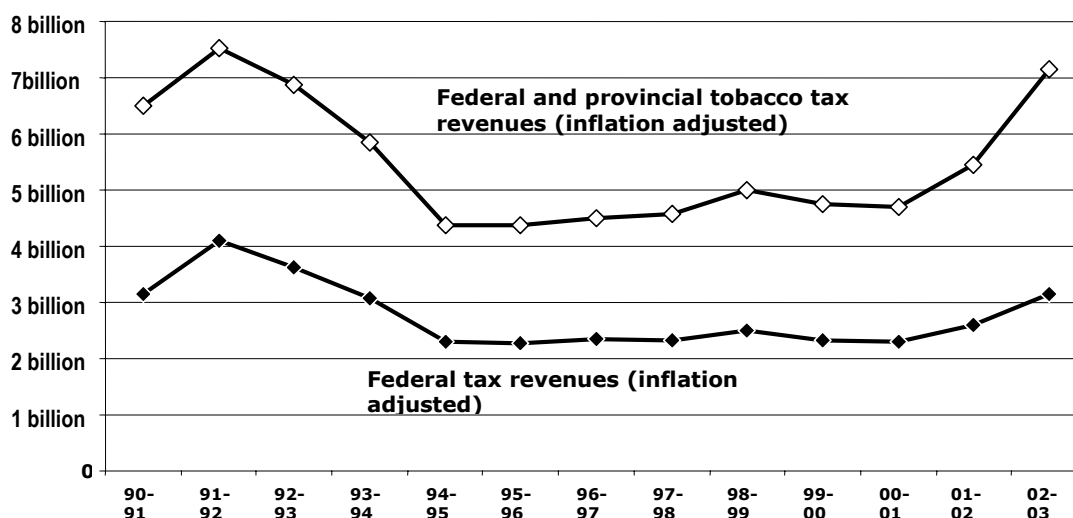
Tobacco tax revenues are recovering, while manufacturer profits continue to increase.

Rothmans has calculated that federal and provincial governments collected more than \$8 billion in fiscal 2002-2003 from taxes on tobacco products (including sales taxes) from all manufacturers, including small companies.<sup>11</sup> For the three major manufacturers, Rothmans calculated taxes collected were \$7.5 billion in fiscal 2002-2003, compared to \$5.4 billion in fiscal 2000-2001.<sup>12</sup> This represents a 39% increase in revenue in two years, despite decreases in smoking. (If small manufacturers were included, the total revenue increase would be even larger.)

To put this into perspective, tobacco taxes (not including sales taxes) raised \$6.1 billion in the fiscal year 1991-92, the previous record year; this is equivalent to roughly \$7.5 billion in present-day dollars. (See Appendix J.)

**Figure 3:**  
**Tobacco tax revenue in Canada not including sales taxes, 1990-2002**

**A: adjusted for inflation (stated in July 2003 dollars)**



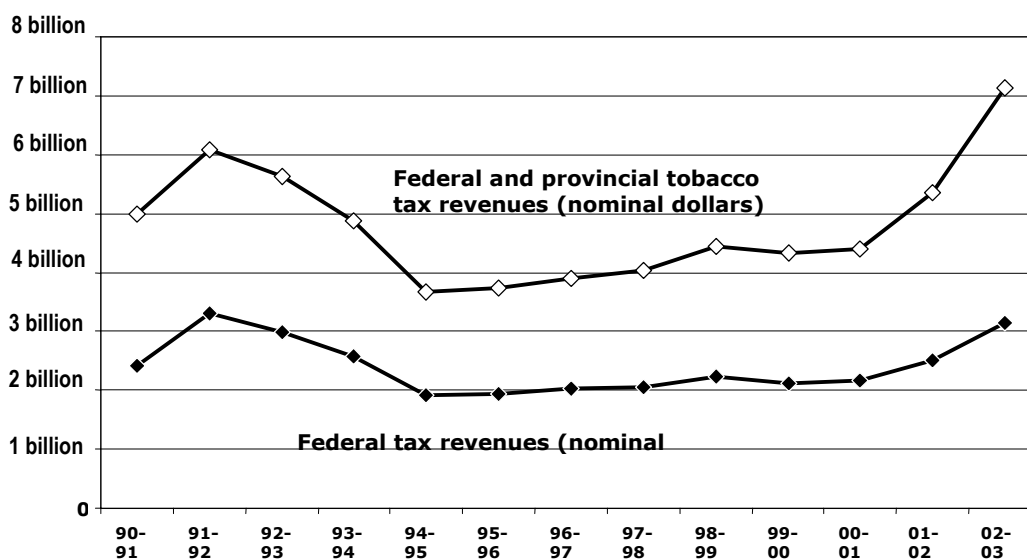
Source data: See Appendix J

<sup>10</sup> See Appendix I, and Table 7.

<sup>11</sup> Rothmans Inc., "Annual Report 2003", p.11. Data is for the year ending March 31, 2003 and includes sales taxes. Figure 3 is based on government statements of revenue, provides data only up to 2002 and does not include revenues from sales taxes on tobacco products.

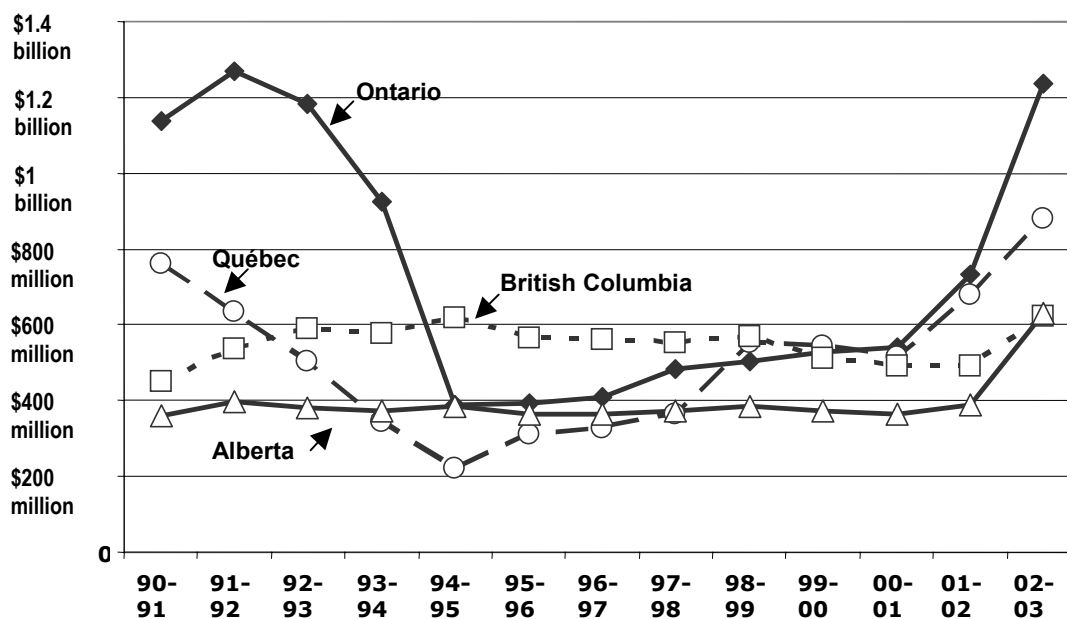
<sup>12</sup> Rothmans Inc., "Annual Report 2003", p.26. Data is for fiscal years ending March 31.

**B: stated in nominal dollars**



Source data: See Appendix J

**C: for Canada's four largest provinces, in July 2003 dollars**



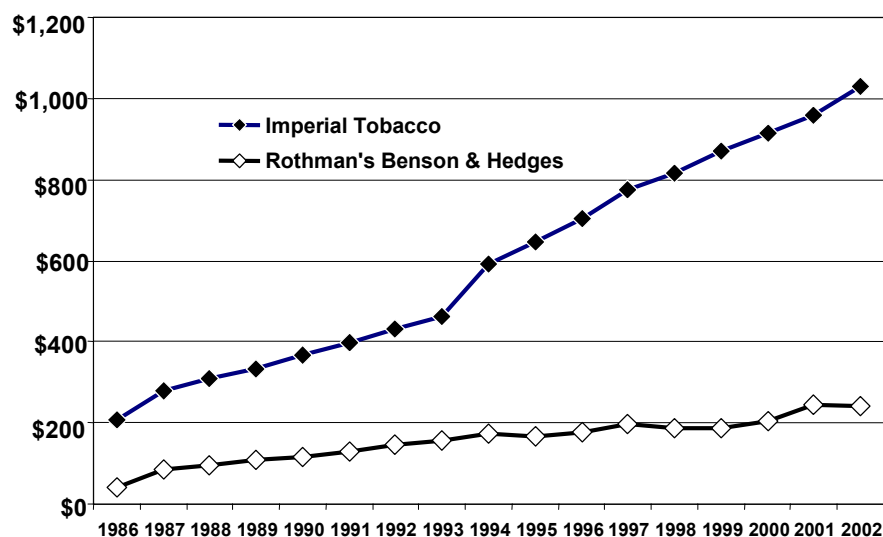
Source data: See Appendix J

Tobacco companies have also increased revenues from tobacco sales by raising their wholesale prices. For example, Rothmans, Benson & Hedges implemented Canada-wide

price increases in September 2002, February 2003, April 1, 2003, and May 6, 2003 totalling \$3.39 or more per carton.<sup>13</sup>

The U-shaped trend in government revenues from tobacco taxes shown in Figure 3 contrasts sharply with the steady increase in cigarette manufacturers' profits shown in Figure 4. Pre-tax earnings for Imperial Tobacco (which has a market share of about 60%) have grown in all but one of the past 25 years, even after adjusting for inflation. Earnings were twice as high in 2002 (\$1 billion) as in 1992 (\$432 million, or \$511 million in constant dollars), despite a decline in sales over the decade.

**Figure 4 :**  
**Pre-tax earnings for Canada's two largest tobacco firms, 1986 – 2002**  
**(\$ millions)**



Source data: See Appendix K

<sup>13</sup> Rothmans Inc., "Annual Report 2003" pp.20-21.

# WHY TOBACCO TAX LOOPHOLES SHOULD BE CLOSED

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## ◇ Tobacco companies have used cheap cigarettes and cigarette substitutes to thwart tax increases

High cigarette taxes are recommended by the World Bank and the World Health Organization because of their proven impact on smoking rates. High prices motivate smokers to quit or reduce the amount they smoke.

Because tobacco manufacturers have been able to introduce cheaper cigarettes on the market, Canadian smokers faced with the “sticker shock” of a sudden increase in the price of cigarettes after tobacco tax increases or manufacturers’ price increases, but who feel unable to quit, have three options to reduce the cost of their cigarette purchases:

- ◇ Switch to roll-your-own tobacco (also known as fine-cut), which benefits from extremely favourable tax treatment;
- ◇ Switch to tobacco sticks (which are essentially cigarettes, with one last assembly step left to smokers to benefit from favourable tax treatment by the federal government — a discount of \$4.25 per carton of 200);
- ◇ Switch to discount brands (which are taxed at the same rate as normal cigarettes, but are cheaper because manufacturers take much smaller margins);

The first option, roll-your-own, remains the most popular discount option in Canada, with almost 11% of the total market in the 12 months to June 30, 2003, according to financial reports from Imperial Tobacco. (See Table 3.)

**Table 3:**  
**Market share of different types of cheap cigarette products<sup>14</sup>**

Category	Share of Canadian Market, 12 months to June 2003	Share of Canadian Market, 2001
Roll-your-own	10.9%	8.7%
Tobacco sticks	4.6%	3.5%
Discount brands	7.5%	N/A
Total	23.0%	12.2%

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<sup>14</sup> Derived from Imperial Tobacco, Second Quarter Report, June 2003 and Annual Report, 2002.

◆ **Canadian taxes have not kept pace with new low-weight 'roll-your-own' cigarettes**

Measuring the market share of roll-your-own is complicated by the fact that the weight of tobacco per roll-your-own cigarette, and hence the number of cigarettes obtained from a tub of roll-your-own, varies from smoker to smoker and from brand to brand, and has declined over time.

For tax purposes, many Canadian jurisdictions mistakenly assume that 1 g of roll-your-own is equivalent to one cigarette. Seven of 10 provinces now tax 200 g of roll-your-own at the same rate as one carton of 200 cigarettes (the three exceptions being New Brunswick, Nova Scotia and Prince Edward Island). The federal government taxes roll-your-own at \$10.80 per 200 g, versus \$15.85 per 200 cigarettes.

However, the move to “equal” tax rates eliminates only a small portion in the tax discount given to roll-your-own, because of a long-term trend towards use of more “expanded” or “puffed-up” tobacco.

Over the last several decades, manufacturers have developed various techniques to reduce tobacco density. In the case of manufactured cigarettes, the goal is simply to reduce costs, by reducing the amount of tobacco leaf companies need to buy. Although cigarettes made from this lighter tobacco weigh less, they are understood to provide smokers with the same amount of harmful smoke.

In the case of roll-your-own tobacco, expanded tobacco provides a tax benefit: since governments tax by weight, but consumers think in terms of number of roll-your-own cigarettes per tub, there is a strong incentive to use the lowest possible density of tobacco. At present, in Canada, as little as 0.45 g of roll-your-own is equivalent to one manufactured cigarette, due to the industry’s increasing use of puffed-up tobacco. Indeed, many brands advertise this fact. For example, Export ‘A’ Light is sold in tubs of 105 g, with the advertising claim “Rolls 100% more”. In fine print, it explains the claim:

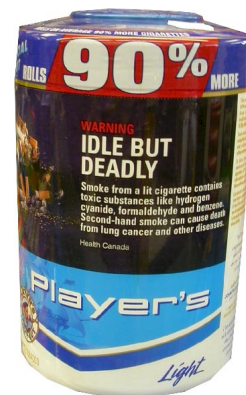
*This tobacco will allow you to roll approximately 100% more cigarettes (0.45 g/tube) than cigarettes prepared with 105 g of premium tobacco (0.90 g/tube).*



*JTI-Macdonald's Export advertises it makes “100% more.”*



*RBH brand Number 7 advertises it makes “95% more.”*



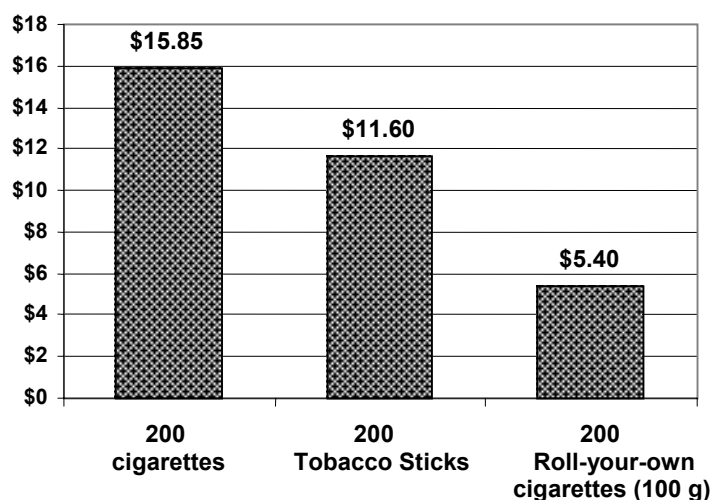
*Imperial Tobacco's Player's roll-your-own brand advertises it makes “90% more.”*

Thus, a tub of Export 'A' Light 105 g is equivalent to 233 cigarettes, yet it is taxed at a huge discount vis-à-vis a carton of 200 cigarettes: it attracts just \$5.67 in federal tax (versus \$15.85 for cigarettes) and anywhere from \$8.91 to \$18.79 in provincial tax (versus \$19.70 to \$35.80 for cigarettes).

It is difficult to give an absolutely accurate assessment of the average weight of roll-your-own per cigarette, across all brands. To give another example, a 100 g tub of Player's Light ("Rolls 90% More") states on the label that "This tobacco will yield, on average, 90% more cigarettes at 0.47 g/tube than cigarettes prepared with traditional fine-cut tobacco at 0.90 g/tube." In their financial reports, Imperial Tobacco and Rothmans Inc. both report sales of fine-cut products in "cigarette equivalents", without specifying the conversion factor. A comparison of sales data reported to Health Canada and Imperial Tobacco reports suggests Imperial Tobacco is now using 0.6 g = 1 cigarette as its conversion factor.<sup>15</sup>

All three categories of cheap cigarettes/substitutes have seen their share of the Canadian market rise in recent years. However, from the standpoint both of public health and public finance, roll-your-own remains the leading concern, due to the exceptionally low tax level on such products. (See table 4)

**Figure 5**  
**Federal taxes applied to tobacco products per 200 units**



source data: see Appendix H

<sup>15</sup> For calendar years 2001 and 2002, Health Canada published data on sales of roll-your-own (fine-cut) separate from sales of kits (tobacco sticks and the like). The figures are 3,534,254 thousand cigarette equivalents in 2001 and 3,810,367 thousand cigarette equivalents in 2002, at 0.7 g = 1 cigarette. In its financial reports, Imperial Tobacco reports industry volume of roll-your-own of 4,200,000 thousand cigarette equivalents in 2001 and 4,400,000 in 2002. Thus, Imperial Tobacco's implied equivalency factor for 2001 is  $3.5 / 4.2 \times 0.7 \text{ g} = 0.59 \text{ g}$ , which we round to 0.6 g = 1 cigarette.



**Table 4**  
**Taxes on roll-your-own vs. taxes on manufactured cigarettes**  
**(not including sales taxes)**

Province	Fed. + prov. tax per 200 cigarettes	Fed. + prov tax on roll-your- own, 200 cigarette equivalents (for brands at 0.5 g = 1 cigarette)	Effective discount (Dec. 2003)	Historical Comparison  Effective discount in February 2001	Increase in discount since February 2001
British Columbia	\$51.65	\$23.30	\$28.35	\$18.95	\$9.40
Alberta	\$47.85	\$21.40	\$26.45	\$17.95	\$8.50
Saskatchewan	\$47.85	\$21.40	\$26.45	\$17.45	\$9.00
Manitoba	\$46.85	\$19.90	\$26.95	\$17.45	\$9.50
Ontario	\$35.55	\$15.25	\$20.30	\$8.50	\$11.80
Québec	\$36.45	\$15.70	\$20.75	\$11.90	\$8.85
New Brunswick	\$39.35	\$13.89	\$25.46	\$13.21	\$12.25
Nova Scotia	\$41.89	\$17.14	\$24.75	\$14.14	\$10.61
Prince Edward Island	\$45.75	\$17.14	\$24.75	\$16.44	\$8.31
Newfoundland & Labrador	\$45.85	\$20.40	\$25.45	\$22.62	\$2.83
Yukon	\$42.85	\$10.08	\$32.17	\$21.43	\$10.74
Northwest Territories	\$57.85	\$19.00	\$38.85	\$26.55	\$12.30
Nunavut	\$47.05	\$14.00	\$33.05	\$24.55	\$8.50

For a breakdown of current federal and provincial tax rates, see Appendix I

Tax increases in 2001-2003 have exacerbated the problem of unequal taxation of roll-your-own, in two ways:

1. The overall rise in tobacco prices has led more smokers to look for cheap alternatives;
2. In dollar terms, the tax discount on roll-your-own has actually increased.

How much does the tax discount on roll-your-own cost the public treasury? A rough estimate is \$450 million per year, based on sales volume in the 12 months to June 30, 2003. (See table 5)

*Photo taken October 2, 2003 in an Ottawa store showing retail advertising for Export 'A' 100% More roll-your-own tobacco at \$21.99 for 105g. Including GST, the cost is \$23.53 for 105g, which the package indicates is enough to make 233 cigarettes (0.45g per cigarette). The cost works out to \$20.20 per 200 roll-your-own cigarettes, including GST.*



**Table 5**  
**Estimated gross\* loss of federal and provincial tobacco tax revenue due to**  
**favourable treatment of roll-your-own**

	Lost Revenue in 2000		Lost Revenue in 12 months to June 30, 2003	
	Federal (million)	Provincial (million)	Federal (million)	Provincial (million)
BC	\$17.3	\$20.7	\$26.0	\$35.6
Alberta	\$28.8	\$35.9	\$36.3	\$49.6
Saskatchewan	\$11.9	\$12.8	\$15.8	\$21.5
Manitoba	\$11.1	\$12.0	\$15.8	\$23.0
Ontario	\$8.3	\$3.4	\$20.6	\$15.1
Québec	\$25.4	\$31.4	\$48.6	\$37.5
New Brunswick	\$8.3	\$5.5	\$14.0	\$29.6
Nova Scotia	\$10.5	\$8.1	\$15.5	\$19.8
PEI	\$1.2	\$1.9	\$2.3	\$3.9
NF	\$11.0	\$19.8	\$15.9	\$20.3
Total	\$133.9	\$151.5	\$210.8	\$256.0
Combined federal and provincial loss	<b>\$285.4 million</b>		<b>\$466.8 million</b>	

\* I.e. assuming no change in sales volumes and no shift to lower-density brands. Based on tax rates at end of 12-month period, meaning that provinces that have increased tax rates since June 2003 (BC, Ontario and Québec) may experience larger losses. For full details of calculations, see Appendix P.

In practice, reducing the tax discount on roll-your-own tobacco would cause substantial numbers of smokers to quit. Indeed, it is likely that purchasers of roll-your-own tobacco are more price sensitive than other smokers. As a result, the immediate revenue impact of adjusting tax rates would likely be quite a bit lower than the above estimates indicate. But conversely, the public health impact would be that much larger.

### ◆ Low roll-your-own tax rates thwart health and revenue objectives

The market share of roll-your-own varies widely from province to province, from less than 3% in Ontario to almost 40% in Newfoundland.<sup>16</sup> Though some of this can be explained by tax differences and income levels, these may not be the only reasons: the market share of roll-your-own is four times higher in Québec than in Ontario, despite comparable tax histories.

It is worth noting that between 2001 and 2002, sales of roll-your-own grew more rapidly in Ontario (by 35%) than in any other province — albeit from a very small base. In Québec, roll-your-own sales actually declined slightly.<sup>17</sup>

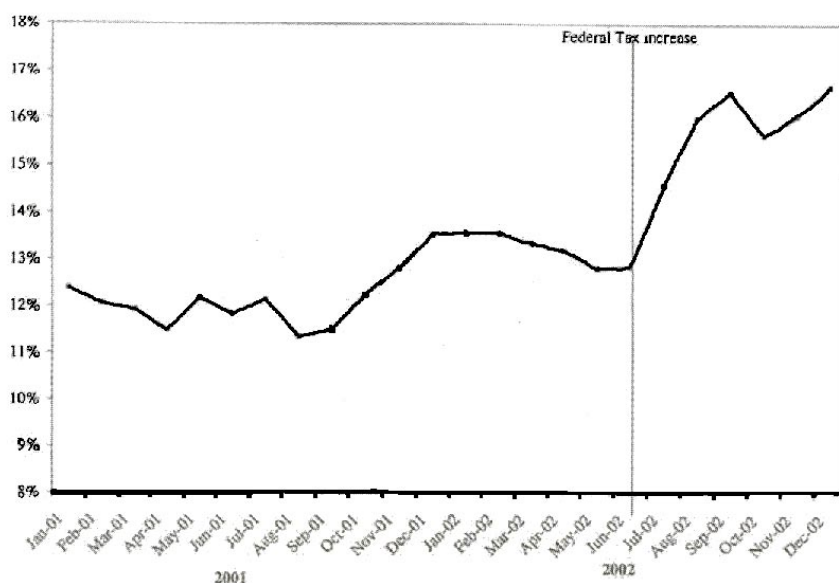
<sup>16</sup> At an equivalency factor of 0.6 g = 1 cigarette, based on sales data reported to Health Canada. (See Appendix L.)

<sup>17</sup> See Appendix L.

If roll-your-own achieved the same popularity in Ontario as it has in Québec, continuing preferential tax treatment for roll-your-own would cost the Ontario and federal treasuries an additional \$106 million per year.

Thus, even in Ontario, where roll-your-own may appear to be a relatively minor issue at present, adjusting tax rates is important to protect existing tobacco tax revenue.

**Figure 6 Proportion of roll-your-own and tobacco stick sales of overall tobacco sales of major manufacturers<sup>18</sup>**



### ◇ Roll-your-own is not a “safety valve”

It has been claimed — notably by some manufacturers — that cheap roll-your-own products act as a “safety valve” for price-conscious smokers, reducing the likelihood that they will turn to black-market cigarettes.

The beauty of this argument, from the manufacturers’ point of view, is that it is virtually impossible to test empirically. One could argue, just as plausibly and with just as little proof, that cheap roll-your-own promotes a “bargain-hunting” mentality among smokers that makes them *more* likely to purchase contraband.

In the late 1980s, roll-your-own had a tiny share of the Ontario market, but a substantial share of the Québec market; yet it was in Québec that cigarette smuggling became a much larger issue.

<sup>18</sup> Imperial Tobacco Canada Ltd. Submission to Health Canada and the House of Commons Standing Committee on Health on Fire-safe cigarettes, January 31, 2003, p. 12.

While there may be a demand for lower-priced products — just as there may be a demand for cancer-free cigarettes — that demand will simply go unmet unless there is supply. The export tax and other measures are effective barriers to contraband. (See “Measures are in place to prevent smuggling” later in this report.)

## ◆ Tobacco sticks are a tax dodge

Tobacco sticks are an archetypal “tax dodge” product created solely to exploit loopholes in the tobacco tax structure. Consumers simply place a filter overwrap over the end of what is otherwise a cigarette, with both components being sold together. A product variation also exists whereby the consumer places a pre-formed rod of tobacco into a cigarette tube, both of which are sold together.

The federal government taxes tobacco sticks at \$4.25 less per 200 units than for cigarettes. (This works out to a tax rate for tobacco sticks that is only 73% of the rate for cigarettes).

All provinces except New Brunswick and Prince Edward Island have closed the loophole and now tax tobacco sticks at the same rate as cigarettes, but the federal government has so far failed to address this imbalance in tobacco taxes.



**Rothmans, Benson &  
Hedges Number 7  
Prestopak:**

*Just add a “filter sleeve” for  
“factory made quality every  
time” — and a significant tax  
savings.*

## ◆ Discount brands have introduced a new category of ‘cheaper’ cigarettes

Since early 2002, there has been rapid growth in sales of discount cigarettes. This segment was long the preserve of minor manufacturers; large manufacturers have recently reacted to small manufacturers’ growing market share by launching their own discount brands (e.g., JTI-Macdonald’s *Legend* and *Studio* brands) or by re-positioning established brands as “value” brands (e.g., Imperial Tobacco’s *Peter Jackson*, or Rothmans, Benson & Hedges’ *Number 7*).

Unlike roll-your-own or tobacco sticks, discount cigarettes do not receive preferential tax treatment. Thus, their growth does not hurt tobacco tax revenues. In fact, since presumably they keep some people smoking who would otherwise have quit, they undoubtedly will increase revenues slightly — though this effect is clearly undesirable from the point of view of public health.

Even the cheapest discount brand of cigarettes is still substantially more expensive than popular brands of roll-your-own. Manufacturers of discount cigarettes would essentially have

to give their product away for free to be able to match the huge tax discount currently given to roll-your-own (i.e. \$16-29 per 200 cigarette equivalents).

### ◆ **Canada's tobacco taxes lag behind other countries**

Canadian cigarette prices are roughly comparable to those in other industrialized countries<sup>19</sup>. The highest prices in North America are found in New York City (which has a hefty municipal tax over and above federal and state taxes).

In the European Union, six of 15 countries (UK, Ireland, France, Sweden, Finland and Denmark) have higher cigarette prices than Ontario and Québec; two have higher prices than Saskatchewan (UK and Ireland).<sup>20</sup> It is worth noting that manufacturers' profit margins are generally much larger in Canada than in Europe. In terms of tax incidence (percentage of retail price accounted for by tax), the Canadian sales-weighted average (66%) is lower than in all 15 EU countries (range: 70-86%).

In both the United States and Europe, there is a strong trend towards increased tobacco taxes. For example, health-care reform in Germany is to be financed via a recently agreed, staged federal tobacco tax increase of €0.90 per pack of 20 — equivalent to \$13.80 Canadian per carton. In 2002, 21 US states increased cigarette taxes. Seventeen states approved tax increases in 2003, and more are likely to do so in 2004.

### ◆ **Increased cigarette taxes save lives**

Higher tobacco taxes lead to reductions in smoking. This is well documented, including in an extensive, seven-volume evidentiary compilation submitted by the Canadian Cancer Society to the House of Commons Standing Committee on Finance.<sup>21</sup> While there is some variation in the estimates of the price elasticity of demand for tobacco products, the most commonly used estimate is  $-0.4$ . That is, for every 10% increase in the real (after-inflation) price, there is corresponding 4% decrease in sales.

A recent study of the Canadian cigarette market, taking into account both legal and illegal sales, found a price elasticity of between  $-0.45$  and  $-0.47$  for the 1982 to 1998 period.<sup>22</sup> The study also calculated elasticities by income quartile, and found that poorer Canadians are much more price sensitive, with a price elasticity for the bottom quartile of  $-0.99$ . This means that lower-income Canadian smokers are so price-sensitive that when tobacco taxes are increased, the amount of money they collectively spend on cigarettes does not change appreciably. Thus, even though lower income Canadians smoke more, the impact of a tobacco

<sup>19</sup> See Appendix M for figures.

<sup>20</sup> Calculated from European Commission, *Excise Duty Tables* (April 2003), available on-line at [http://europa.eu.int/comm/taxation\\_customs/publications/info\\_doc/taxation/c4\\_excise\\_tables.pdf](http://europa.eu.int/comm/taxation_customs/publications/info_doc/taxation/c4_excise_tables.pdf). Or Appendix M.

<sup>21</sup> Canadian Cancer Society, "Compilation of Selected Evidence Regarding the Impact of Higher Tobacco Prices on Tobacco Use: A Submission Prepared for the House of Commons Standing Committee on Finance" September 2001.

<sup>22</sup> Jonathan Gruber, Anindya Sen, Mark Stabile, Estimating price elasticities when there is smuggling: *the sensitivity of smoking to price in Canada*, National Bureau of Economic Research Working Paper 8962, 2002. On-line at <http://www.nber.org/papers/w8962>.

tax increase is not 'regressive' (imposed disproportionately on poorer people) because relatively more lower-income smokers quit.

A good rule of thumb is that about half of the decrease in consumption that results from price increases comes from people who continue to smoke, but reduce their daily consumption.<sup>23</sup> The other half comes from a decline in the number of smokers, i.e. from smokers who quit smoking altogether, or teens who would otherwise have started smoking.

Roughly half of long-time smokers can expect to die from a tobacco-caused disease.<sup>24</sup> As a result, even a small decrease in tobacco consumption translates into a very large number of deaths prevented.

**Table 6: Projected health impact under four tax increase scenarios.**

Current price* of 200 cigarettes	Amount of price increase	Resulting decline in consumption (at -0.4 elasticity)	No. of smokers who quit / don't start (at -0.2 participation elasticity)
\$67.48	\$5	2.9%	80,000
	\$10	5.5%	150,000
	\$15	8.0%	220,000
	\$20	10.3%	280,000

\* Nov. 2003 price reported by Statistics Canada, updated to reflect tax increases in ON, QC, BC

Of course, an immediate drop in consumption does not translate into an immediate decline in the number of tobacco-caused deaths. For example, a 15-year-old who begins to smoke tomorrow will not experience a substantially elevated risk of lung cancer until they are in their 30s; as a result, preventing a teen from starting to smoke will not affect lung cancer rates for at least two decades, though the long-term health and financial benefits are clear.

In 2000, Health Canada forecast the impact of a gradual 3.4% reduction (over 10 years) in tobacco consumption due to new package warnings — roughly similar to that of an immediate 3% reduction caused by taxation. Health Canada forecast that within 25 years, such a reduction would prevent almost 32,000 deaths.<sup>25</sup>

## ◆ The importance of federal action on tobacco taxes

In nominal terms, federal tobacco taxes have recently returned to their January 1994 level. However, because of inflation, manufacturers' price increases and provincial tax increases, they are substantially lower as a proportion of total retail price. The federal government now receives only about one-third to two-fifths of all taxes collected, depending on the type of

<sup>23</sup> C.f. US Department of Health and Human Services, *Smoking and Health in the Americas: A 1992 Report of the Surgeon General, in collaboration with the Pan American Health Organization*, Washington, 1992, p. 131.

<sup>24</sup> Richard Doll et al. Mortality in relation to smoking: 40 years' observation on male British doctors. *British Medical Journal*, 1994, 309:901–11.

<sup>25</sup> Health Canada, "Regulatory Analysis Impact Statement" accompanying the *Tobacco Products Information Regulations*, Canada Gazette Part II, vol. 134, no. 15, July 19, 2000, p. 1754.

tobacco product (see Appendix I). This is down substantially from the levels before the February 1994 tax rollback. Thirty years ago, federal taxes accounted for two-thirds of tobacco taxes.<sup>26</sup>

**Table 7: Federal taxes (including GST) as a percentage of total price<sup>27</sup>**

Province	Cigarettes Dec. 2003	Comparison Cigarettes Jan. 1994	Sticks Dec. 2003	Roll-your-own Dec. 2003
Newfoundland & Lab.	26%	32%	25%	22%
Prince Edward Island	28%	36%	28%	26%
Nova Scotia	27%	37%	26%	24%
New Brunswick	28%	37%	30%	27%
Québec	32%	37%	31%	27%
Ontario	32%	38%	31%	27%
Manitoba	26%	36%	25%	23%
Saskatchewan	26%	36%	24%	22%
Alberta	28%	40%	26%	23%
British Columbia	26%	35%	25%	22%
Yukon	29%	n/a	39%	33%
Northwest Territories	25%	n/a	28%	25%
Nunavut	28%	n/a	26%	28%

Federal tobacco taxes are to be preferred over provincial tobacco taxes. They apply throughout Canada, and do not contribute to the risk of interprovincial smuggling. Federal tobacco taxes apply to all products sold on First Nations reserves, while provincial tobacco taxes do not apply to on-reserve sales to status Indians. Further, the practice has been that federal tobacco tax increases apply to sales in duty-free stores, but this has not been the case for provinces. The higher the proportion of tobacco taxes that are federal, the greater the discouragement of potential smuggling.

<sup>26</sup> Rothmans of Pall Mall Canada Ltd. Annual Report, 1973, p. 6.

<sup>27</sup> See Appendix I.

# RECOMMENDATIONS

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## ◇ Recommendation 1:

***Federal taxes on cigarettes should be increased by at least \$5.00 per carton.***

Of this, \$3.12 would represent an inflation adjustment so that the federal tobacco tax rate would be equal to the rate in January 1994, factoring in inflation to November 2003.<sup>28</sup>

This recommended increase is consistent with the trend of federal increases that occurred in April 2001, November 2001 and June 2002.

Unless governments increase tobacco taxes, tobacco manufacturers will increase their own prices to capture the pricing room that remains available. But it is far better that revenue from higher prices go to government than to the tobacco industry, an industry that is enjoying record-high profits. That significant room for price increases remains available is demonstrated by the aggressive strategy of price increases by tobacco manufacturers, a strategy that manufacturers fully intend to pursue in the absence of government action and reflected by Rothmans, Benson & Hedges' \$3.39 price increase for a carton of cigarettes over the past 12 months.

## ◇ Recommendation 2:

***Tobacco sticks should be taxed at the same rate as manufactured cigarettes by increasing federal taxes on tobacco sticks by \$9.25 per 200 sticks.***

*Of this \$9.25 increase, \$5.00 would match the \$5.00 increase per 200 cigarettes, and \$4.25 would close the loophole allowing tobacco sticks to be taxed at a lower rate.*

Most provinces have eliminated the tax loophole for sticks; the federal government should do likewise.

There is no legitimate reason why there should be a loophole allowing tobacco sticks to be taxed at a lower rate. The loophole undermines the objectives of reducing smoking and protecting government revenue.

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<sup>28</sup> Federal cigarette taxes today are \$15.85, the same as in January 1994 prior to the tobacco tax rollback. Given that cumulative inflation from January 1994 to November 2003 is 19.7%, the inflation adjustment would be \$3.12 (\$15.85 X 19.2%). In January 1994, the Consumer Price Index (CPI) was 102.5. In November 2003, the CPI was 122.7.  $122.7/102.5 = 119.7\%$ .



### ◇ Recommendation 3:

***Roll-your-own should be taxed at the same rate as manufactured cigarettes by increasing federal taxes on roll-your own tobacco by \$15.45 per 200 roll-your-own cigarettes (100 g).***

*Of this \$15.45 increase, \$5.00 would match the \$5.00 increase on 200 cigarettes. The remaining \$10.45 of this increase would close the loophole that allows roll-your-own tobacco to be taxed at a lower rate than cigarettes.*

There are two options for eliminating the large tax discount vis-à-vis manufactured cigarettes now given to roll-your-own:

1. Tax each brand according to the number of cigarettes it makes (i.e. by volume).
2. Continue with weight-based taxation, but at a more realistic equivalency factor than 1 g of fine-cut = 1 cigarette.

The second option is preferred.

One option for a volume-based system would be to tax each brand of roll-your-own based on the manufacturer's advertising claim. For example, if a brand claimed that it yielded 1 cigarette from 0.5 g of tobacco, the tax rate for 200 cigarettes would apply to 100 g of that brand. The unfortunate consequence of this system would be that manufacturers could effectively set their own tax rates, unless tax authorities were willing to invest considerable resources into verifying manufacturers' claims. There would also be enforcement issues, including when manufacturers make no claims or incomplete claims on packages.

A simpler approach is to continue taxing by weight, but choose a conversion factor that is lower than the outdated 1 g = 1 cigarette now in use. One approach would be to choose a conversion factor that is close to the sales-weighted average of brands under present market conditions (i.e. approximately 0.6 g = 1 cigarette). However, it is virtually guaranteed that the sales-weighted average would promptly drop, as heavier brands would rapidly be squeezed out of the market.

Given this, we recommend that governments move immediately to a conversion factor of 0.5 g = 1 cigarette, which is still higher than the advertised factor for several popular brands (*Export 'A' Light* ("100% More"), *Player's Light* ("90% more"), etc.). The same tax rate should be applied to roll-your-own as to manufactured cigarettes, i.e. 100 g of roll-your-own should be treated as 200 cigarettes.

#### ◆ Recommendation 4:

##### ***Tax increases should apply to products sold in duty-free stores or subject to export tax.***

The recommended tax increases on cigarettes, tobacco sticks and roll-your-own tobacco should apply to products sold in duty-free stores. This has been the practice with federal tobacco tax increases that occurred in April 2001, November 2001 and June 2002. This same practice should be continued for all future federal tobacco tax increases. Further, the export tax should be increased by the same amount as any tax increase on domestic sales.

#### ◆ Recommendation 5

##### ***Disallow tax deductibility for tobacco advertising.***

For reasons of policy coherence, expenditures on tobacco advertising and promotion should no longer be deductible from the corporate income taxes paid by tobacco companies.

Parliament has decided that tobacco promotions should be curbed (the 1988 Tobacco Products Control Act totally banned advertising, and its replacement act, the 1997 Tobacco Act, contains significant restrictions responding to a Supreme Court decision). Because tobacco companies are currently allowed to deduct promotional expenditures from their corporate income tax, the government and taxpayers are in effect subsidizing tobacco advertising and promotion.

There are several precedents whereby the deductibility of certain business expenses is restricted for public policy reasons. For example, Canadian companies cannot deduct advertising expenses made in U.S. media, such as on a radio station near the Canadian border. Also, only 50% of business meal and entertainment expenses are tax-deductible.

#### ◆ Recommendation 6

##### ***Increase the surtax on tobacco company profits.***

In 1994, when the federal government decided to slash tobacco taxes in the face of heavy cigarette smuggling, the government also imposed a 40% surtax on manufacturers' income taxes. This was a direct response to the companies' responsibility for the smuggling crisis.

As Prime Minister Jean Chrétien said at the time:

*We do not want tobacco manufacturers to receive any benefit from the difficult decision we have made today. The fact is that the Canadian manufacturers have benefited directly from this illegal trade. They have known perfectly well that their tobacco exports to the United States have been re-entering Canada illegally. I believe they have not acted responsibly. [...]*

*We are imposing, effective immediately, a substantial increase in corporate taxes on Canadian tobacco manufacturers. We are imposing a three-year health promotion surtax on tobacco*

*manufacturing profits. The surtax will increase the federal tax rate on manufacturing and processing tobacco products from 21 per cent to 30 per cent. Companies will pay 40 per cent more federal tax on manufacturing profits than they have in the past and the federal government will receive up to \$200 million in extra revenue over the three years.*

— House of Commons,  
Feb. 8th, 1994

In April 2001, when the federal government announced a significant tax increase and smuggling prevention measures, the surtax was raised to 50%. Given the leading manufacturers' ability to increase total profits, even in the face of steep declines in sales, a further increase seems appropriate. In view of the continuing increase in the direct and indirect costs of smoking borne by the public purse, the surtax on tobacco company income tax should be increased from 50% to 60%.

### ◆ **Recommended tax increases would raise \$930 million per year**

The tobacco tax increases proposed in recommendations 1 to 3 for cigarettes, sticks and roll-your-own would have a significant revenue impact, leading to an increase in federal revenue of \$930 million per year, not including GST. Supplementary revenue from tobacco taxes would make it easier to meet the fiscal challenges caused by tobacco use, including health-care costs and programme spending in the field of tobacco control.

For a detailed calculation of the estimated revenue increase, see Appendix N.

### ◆ **Measures are in place to prevent smuggling**

There are several factors in place that prevent the emergence of a material level of smuggling entering Canada, in particular by eliminating Canadian manufacturers as a potential source of supply. These factors include the following:

- ◆ An effective export tax is in place that has prevented, and will continue to prevent, the export and re-import of products as contraband. It was contraband of this nature that was widespread in the early 1990s.
- ◆ The combined scrutiny of governments, law enforcement officials, media, health organizations and the public means that smuggling could not occur again in the way that it did in the early 1990s. For example, on August 13, 2003, the federal government filed a \$1.5 billion lawsuit for damages related to contraband against JTI-Macdonald and related companies. Further, on February 28, 2003, the RCMP laid criminal charges against JTI-Macdonald and affiliated companies and executives on matters related to contraband in the 1990s. The RCMP has stated that its investigation is continuing.<sup>29</sup> Philip Morris has stated that Canadian authorities are contemplating the laying of

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<sup>29</sup> Royal Canadian Mounted Police, "RCMP lays criminal charges against tobacco company" February 28, 2003 (news release).

criminal charges against Philip Morris International and Philip Morris Duty Free Inc. related to contraband in the early to mid 1990s.<sup>30</sup> These charges and potential charges, combined with the civil lawsuit by the Attorney General of Canada, provide a deterrent to future improper behaviour.

- ◇ Since manufacturers are deterred from supplying contraband markets due to the export tax and extensive scrutiny, they have a strong financial incentive to co-operate with the authorities in suppressing what contraband may arise. With their extensive network of sales representatives and close monitoring of sales on an outlet-by-outlet basis, large manufacturers are in an excellent position to detect black-market activity by other players. The current situation is in contrast to the early 1990s when manufacturers had a financial incentive to encourage contraband because it was their brands that were being smuggled. For example, manufacturers should be able to rapidly detect retailers who switch from a legal to an illegal source of supply.
- ◇ The overall tobacco market in Canada has fallen considerably since the early 1990s, thus reducing the potential profitability and viability of illegal operators. While 31% of Canadians aged 15+ smoked in 1991, prevalence fell to 21% in 2002, and is likely to be even lower now.
- ◇ The availability of tax-paid discount cigarettes reduces the profit margin for prospective smugglers of major brands.
- ◇ Canada's picture-based package warning system, with unique messages, helps distinguish legitimate products from illegitimate product entering Canada. (The series of rotated messages are reproduced in Appendix A.)
- ◇ Internationally, governments are placing increased attention on curbing contraband. For example, the Framework Convention on Tobacco Control, an international treaty, was adopted May 21, 2003 by the World Health Assembly and is now signed by more than 80 countries plus the European Community. Over time, the Framework Convention on Tobacco Control will contribute to controlling contraband.
- ◇ While there are many measures in place that currently limit the risk of a resurgence of contraband there are also clearly additional measures that can be taken to protect both revenue and national health objectives while discouraging crime. A key measure, as outlined in the FCTC, is to require the implementation of a national policy that ensures a 'track and trace' system for all tobacco products. This would allow suspicious product to be traced through the distribution chain and allow the quick identification of any 'leaks' in the system. Such a system would not only make inter-provincial and reserve-based smuggling operations easier to stop, it would also make it far more difficult to fence stolen product.

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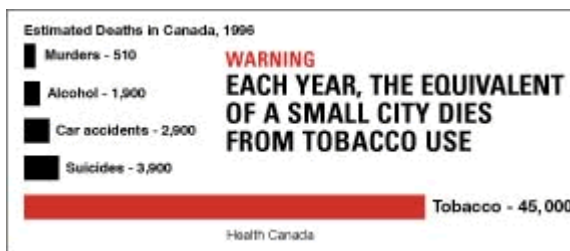
<sup>30</sup> Altria Group Inc., Quarterly Report (Form 10-Q) to the U.S. Securities Exchange Commission for the period ending March 31, 2003.

## ◆ Conclusion

Increasing tobacco taxes represents a win-win opportunity for public health and public revenue. Such increases would reduce smoking, including among price sensitive teenagers, and thereby reduce the burden of the tobacco epidemic. The increase in government revenue could be used to reduce debt, reduce other taxes, or support increased programming activity in areas of government priority.

## EXTERIOR HEALTH WARNINGS ON CIGARETTE PACKAGES

The health warnings reproduced in this appendix provide more details regarding the health effects of smoking. These warnings have a further benefit in that they help to identify products legitimately available for sale in Canada.





**WARNING**  
**CIGARETTES ARE A HEARTBREAKER**

Tobacco use can result in the clogging of arteries in your heart. Clogged arteries cause heart attacks and can cause death.

damaged heart muscle — result of clogged artery

Health Canada



**WARNING**  
**CIGARETTES LEAVE YOU BREATHLESS**

Tobacco use causes crippling, often fatal lung diseases such as emphysema.

Health Canada



**WARNING**  
**CIGARETTES CAUSE LUNG CANCER**

85% of lung cancers are caused by smoking. 80% of lung cancer victims die within 3 years.

lung cancer

Health Canada



**WARNING**  
**CIGARETTES CAUSE LUNG CANCER**

Every cigarette you smoke increases your chance of getting lung cancer.

Health Canada

Appendix B

# ANNUAL SALES AND PER CAPITA CONSUMPTION OF CIGARETTES AND FINE-CUT TOBACCO, 1949-2002

Year	Population, 15 years + (000s)	Cigarette and Tobacco Sales (000s)				Per Capita Consumption		
		Legal cigarettes	Illegal cigarettes*	Total cigarettes	Fine- cut (kg)**	Total legal and illegal cigarettes and fine- cut	Legal cigarettes and fine- cut***	Legal and illegal cigarettes and fine- cut
1949	9,509	16,836		16,836	11,430	28,266	2,973	
1950	9,642	17,172		17,172	11,750	28,922	3,000	
1951	9,759	15,672		15,672	12,380	28,052	2,874	
1952	10,006	17,844		17,844	14,060	31,904	3,188	
1953	10,217	21,000		21,000	11,840	32,840	3,214	
1954	10,452	22,116		22,116	11,110	33,226	3,179	
1955	10,659	24,576		24,576	10,700	35,276	3,310	
1956	10,856	27,000		27,000	9,620	36,620	3,373	
1957	11,153	30,144		30,144	9,430	39,574	3,548	
1958	11,395	32,404		32,404	10,800	43,204	3,791	
1959	11,625	33,822		33,822	10,210	44,032	3,788	
1960	11,840	34,829		34,829	10,300	45,129	3,812	
1961	12,046	36,699		36,699	10,390	47,089	3,909	
1962	12,273	38,683		38,683	10,570	49,253	4,013	
1963	12,513	39,877		39,877	10,120	49,997	3,996	
1964	12,792	40,639		40,639	9,620	50,259	3,929	
1965	13,088	43,013		43,013	9,980	52,993	4,049	
1966	13,423	46,276		46,276	8,710	54,986	4,096	
1967	13,791	46,864		46,864	8,160	55,024	3,990	
1968	14,143	46,270		46,270	8,750	55,020	3,890	
1969	14,490	46,582		46,582	8,620	55,202	3,810	
1970	14,843	49,823		49,823	8,660	58,483	3,940	
1971	15,582	50,864		50,864	8,890	59,754	3,835	
1972	15,935	53,290		53,290	6,974	60,264	3,782	
1973	16,309	54,864		54,864	7,359	62,223	3,815	
1974	16,722	57,123		57,123	6,705	63,828	3,817	
1975	17,141	57,756		57,756	6,592	64,348	3,754	
1976	17,545	60,743		60,743	6,577	67,320	3,837	
1977	17,919	61,786		61,786	6,316	68,102	3,801	
1978	18,271	61,608		61,608	5,660	67,268	3,682	
1979	18,620	63,860		63,860	5,227	69,087	3,710	
1980	19,008	64,493		64,493	4,784	69,277	3,645	
1981	19,357	66,560		66,560	4,764	71,324	3,685	
1982	19,666	66,339		66,339	5,553	71,892	3,656	
1983	19,923	63,115		63,115	6,026	69,141	3,470	
1984	20,174	61,734		61,734	6,165	67,899	3,366	
1985	20,427	58,954		58,954	6,866	65,820	3,222	
1986	20,707	55,437	200	55,637	7,413	63,050	3,035	3,045
1987	21,009	52,612	510	53,122	7,863	60,985	2,879	2,903



		<i>Cigarette and Tobacco Sales (000s)</i>				<i>Per Capita Consumption</i>		
1988	21,298	51,054	560	51,614	8,027	59,641	2,774	2,800
1989	21,696	47,603	1,060	48,663	7,749	56,412	2,551	2,600
1990	22,027	45,917	1,270	47,187	6,658	53,845	2,387	2,444
1991	22,299	38,946	6,430	45,376	6,424	51,800	2,035	2,323
1992	22,556	35,060	8,200	43,260	5,080	48,340	1,780	2,143
1993	23,009	30,225	14,500	44,725	3,829	48,554	1,480	2,110
1994	23,284	45,743	2,500	48,243	3,964	52,207	2,135	2,242
1995	23,631	45,581	800	46,381	3,833	50,214	2,091	2,125
1996	23,981	47,118	500	47,618	4,050	51,668	2,134	2,155
1997	24,294	45,518	500	46,018	3,969	49,987	2,037	2,058
1998	24,635	45,579	500	46,079	4,184	50,263	2,020	2,040
1999	24,590	45,112	500	45,612	4,152	49,764	2,003	2,024
2000	24,911	43,433	500	43,933	3,927	47,860	1,901	1,921
2001	25,268	42,295	500	42,795	3,829	46,624	1,825	1,845
2002	25,605	38,155	500	38,655	4,064	42,719	1,649	1,668

\* See notes 3) to 7) below

\*\* In Statistics Canada's terminology, fine-cut includes both roll-your-own and sticks.

\*\*\* For historical reasons, this data is presented using a conversion factor of 1 g fine-cut = 1 cigarette. Thus, data for recent years understates per capita consumption.

## Sources:

- 1) Population data from Statistics Canada, CANSIM, Table 051-0001 — Estimates of population, by age group and sex, Canada, provinces and territories, annual.
- 2) Legal sales data from Statistics Canada, CANSIM, Table 303-0007 — Production and disposition of tobacco products
- 3) 1986-1991 contraband estimate from Canadian Tobacco Manufacturers' Council, [untitled, 1993], summary of Canadian and American tobacco sales, including sales of Canadian contraband.
- 4) 1992 contraband estimate from Lindquist Avey Macdonald Baskerville, "1992 contraband estimate — and update", Sept. 27<sup>th</sup>, 1993.
- 5) 1993 contraband estimate from Lindquist Avey Macdonald Baskerville, "The impact of reducing tobacco taxes on the contraband market", June 27<sup>th</sup>, 1994.
- 6) For 1993-1995, Imasco Ltd., "Annual Report 1995", 1996.
- 7) For 1996-2002, a residual contraband level of 500 million units per year entering Canada has been assumed.

# TRENDS IN CIGARETTE TAXES, 2001-2003

<i>Province</i>	<i>Total taxes*, January 2001 (as % of total price)</i>	<i>Total taxes* Dec. 2003 (as % of total price)</i>	<i>Increase in total taxes*</i>	<i>Estimated retail price, Dec. 2003</i>
British Columbia	\$36.19 (71%)	\$56.86 (71%)	\$20.67	\$79.60
Alberta	\$27.63 (65%)	\$52.79 (70%)	\$25.16	\$75.53
Saskatchewan	\$33.63 (69%)	\$57.03 (71%)	\$23.40	\$79.77
Manitoba	\$34.06 (70%)	\$56.59 (71%)	\$22.53	\$79.33
Ontario	\$18.39 (55%)	\$39.63 (64%)	\$21.24	\$62.37
Québec	\$19.18 (56%)	\$40.59 (64%)	\$21.41	\$63.33
New Brunswick	\$23.91 (62%)	\$48.66 (68%)	\$24.75	\$71.40
Nova Scotia	\$25.68 (63%)	\$51.58 (69%)	\$25.90	\$74.32
Prince Edward Island	\$25.38 (63%)	\$50.54 (69%)	\$25.16	\$73.28
Newfoundland & Labrador	\$40.01 (73%)	\$56.14 (71%)	\$16.13	\$78.88
Yukon	\$30.20 (67%)	\$46.80 (67%)	\$16.60	\$69.54
Northwest Territories	\$41.75 (74%)	\$63.49 (74%)	\$21.74	\$86.23
Nunavut	\$39.61 (73%)	\$51.94 (70%)	\$12.33	\$74.68
Canada (sales- weighted average)	\$22.86 (61%)	\$44.77 (66%)	\$21.91	\$67.48

\*incl. GST, PST and HST, where applicable

## Sources:

- 1) Tax rate information, as compiled by Finance Canada;
- 2) Cigarette sales by province in 2002, as reported to Health Canada;
- 3) Price of 200 cigarettes, as reported by Statistics Canada, CANSIM II, Table 326-0012 (200 cigarettes) and Table 326-0001 (Consumer Price Index, all items); Dec. 2003 prices figures based on Nov. 2003 Statistics Canada, updated to reflect tax increases in Ontario, Québec and British Columbia.

See Appendices I, F, E respectively for source data.

# **NOMINAL AND REAL PRICES OF MANUFACTURED CIGARETTES 1949-2002**

<i>Year</i>	<i>All items Consumer Price Index (1992 = 100)</i>	<i>Consumer Price Index, cigarettes</i>	<i>Nominal price</i>	<i>Real price, July 2003 \$</i>
1949	14.5	7.1		\$29.04
1950	14.9	7.2		\$28.66
1951	16.4	7.8		\$28.21
1952	16.9	8.1		\$28.43
1953	16.7	6.9		\$24.51
1954	16.8	6.7		\$23.65
1955	16.8	6.7		\$23.65
1956	17.1	6.7		\$23.24
1957	17.6	6.7		\$22.58
1958	18.0	6.7		\$22.08
1959	18.3	7.2		\$23.34
1960	18.5	7.3		\$23.40
1961	18.7	7.3		\$23.15
1962	18.9	7.4		\$23.22
1963	19.2	7.4		\$22.86
1964	19.6	7.4		\$22.39
1965	20.0	7.7		\$22.83
1966	20.8	8.0		\$22.81
1967	21.5	8.3		\$22.90
1968	22.4	9.4		\$24.89
1969	23.4	9.8		\$24.84
1970	24.2	9.9		\$24.26
1971	24.9	10.2		\$24.30
1972	26.1	10.4		\$23.63
1973	28.1	10.8		\$22.80
1974	31.1	11.2		\$21.36
1975	34.5	12.6		\$21.66
1976	37.1	13.6		\$21.74
1977	40.0	14.7		\$21.80
1978	43.6	16.1		\$21.90
1979	47.6	17.0		\$21.18
1980	52.4	18.6		\$21.05
1981	58.9	21.2		\$21.35
1982	65.3	24.5		\$22.25
1983	69.1	28.8		\$24.72
1984	72.1	32.2		\$26.49
1985	75.0	37.8		\$29.89
1986	78.1	44.4		\$33.72
1987	81.5	48.2		\$35.08
1988	84.8	52.1		\$36.44
1989	89.0	61.4		\$40.92
1990	93.3	70.1		\$44.56

<b>Year</b>	<b><i>All items Consumer Price Index (1992 = 100)</i></b>	<b><i>Consumer Price Index, cigarettes</i></b>	<b><i>Nominal price</i></b>	<b><i>Real price, July 2003 \$</i></b>
1991	98.5	92.3		\$55.58
1992	100.0	100.0		\$59.31
1993	101.8	101.1		\$58.90
1994	102.0	64.0		\$37.21
1995	104.2	62.2	\$30.94	\$36.29
1996	105.9	63.4	\$31.46	\$36.31
1997	107.6	67.2	\$33.12	\$37.61
1998	108.6	71.0	\$34.91	\$39.28
1999	110.5	72.7	\$35.74	\$39.52
2000	113.5	76.2	\$36.83	\$39.65
2001	116.4	86.0	\$41.27	\$43.33
2002	119.0	113.5	\$55.09	\$56.57

### **Sources:**

- 1) CPI data from: Statistics Canada, CANSIM, Table 326-000 - Consumer price index (CPI), 2001 basket content, monthly (Index, 1992=100), All-Items and Cigarettes
- 2) Cigarette price data from: Statistics Canada, CANSIM, Table 326-0012 - Average retail prices for food and other selected items, monthly (Dollars) - Cigarettes, 200
- 3) Real price data calculated from ratio of cigarette to all-items CPI

Appendix E

# MONTHLY PRICE FOR 200 CIGARETTES JANUARY 1995 TO JULY 2003

<i>Month</i>	<i>Nominal price of 200 cigarettes (Canada)</i>	<i>Consumer Price Index, All- Items</i>	<i>Real price of 200 cigarettes, Nov. 2003 \$</i>	<i>Month</i>	<i>Nominal price of 200 cigarettes (Canada)</i>	<i>Consumer Price Index, All- Items</i>	<i>Real price of 200 cigarettes, Nov. 2003 \$</i>
01/1995	\$30.22	103.1	\$35.97	06/1998	\$34.98	108.8	\$39.45
02/1995	\$30.17	103.6	\$35.73	07/1998	\$35.17	108.8	\$39.66
03/1995	\$30.81	103.8	\$36.42	08/1998	\$35.19	108.8	\$39.69
04/1995	\$30.73	104.1	\$36.22	09/1998	\$35.30	108.6	\$39.88
05/1995	\$31.09	104.4	\$36.54	10/1998	\$35.20	109	\$39.62
06/1995	\$31.20	104.4	\$36.67	11/1998	\$35.35	109	\$39.79
07/1995	\$31.20	104.6	\$36.60	12/1998	\$35.37	108.7	\$39.93
08/1995	\$31.10	104.4	\$36.55	01/1999	\$35.43	108.9	\$39.92
09/1995	\$31.22	104.5	\$36.66	02/1999	\$35.46	109.1	\$39.88
10/1995	\$31.20	104.4	\$36.67	03/1999	\$35.32	109.5	\$39.58
11/1995	\$31.17	104.7	\$36.53	04/1999	\$35.46	110.1	\$39.52
12/1995	\$31.18	104.5	\$36.61	05/1999	\$35.71	110.4	\$39.69
01/1996	\$31.19	104.8	\$36.52	06/1999	\$35.83	110.5	\$39.79
02/1996	\$31.20	104.9	\$36.49	07/1999	\$35.86	110.8	\$39.71
03/1996	\$31.21	105.3	\$36.37	08/1999	\$35.88	111.1	\$39.63
04/1996	\$31.22	105.6	\$36.28	09/1999	\$35.92	111.4	\$39.56
05/1996	\$31.55	105.9	\$36.56	10/1999	\$35.88	111.5	\$39.48
06/1996	\$31.59	105.9	\$36.60	11/1999	\$35.74	111.4	\$39.37
07/1996	\$31.47	105.9	\$36.46	12/1999	\$36.34	111.5	\$39.99
08/1996	\$31.40	105.9	\$36.38	01/2000	\$36.36	111.4	\$40.05
09/1996	\$31.48	106.1	\$36.41	02/2000	\$36.40	112	\$39.88
10/1996	\$31.32	106.3	\$36.15	03/2000	\$36.50	112.8	\$39.70
11/1996	\$31.37	106.8	\$36.04	04/2000	\$36.24	112.4	\$39.56
12/1996	\$32.57	106.8	\$37.42	05/2000	\$36.63	113	\$39.77
01/1997	\$32.73	107	\$37.53	06/2000	\$37.03	113.7	\$39.96
02/1997	\$32.68	107.2	\$37.41	07/2000	\$37.03	114.1	\$39.82
03/1997	\$32.72	107.4	\$37.38	08/2000	\$37.03	113.9	\$39.89
04/1997	\$32.78	107.4	\$37.45	09/2000	\$37.17	114.4	\$39.87
05/1997	\$32.95	107.5	\$37.61	10/2000	\$37.02	114.6	\$39.64
06/1997	\$33.29	107.7	\$37.93	11/2000	\$37.04	115	\$39.52
07/1997	\$33.32	107.7	\$37.96	12/2000	\$37.49	115.1	\$39.97
08/1997	\$33.29	107.9	\$37.86	01/2001	\$37.67	114.7	\$40.30
09/1997	\$33.39	107.8	\$38.01	02/2001	\$37.58	115.2	\$40.03
10/1997	\$33.45	107.9	\$38.04	03/2001	\$37.59	115.6	\$39.90
11/1997	\$33.52	107.7	\$38.19	04/2001	\$40.51	116.4	\$42.70
12/1997	\$33.30	107.6	\$37.97	05/2001	\$41.39	117.4	\$43.26
01/1998	\$33.55	108.2	\$38.05	06/2001	\$41.45	117.5	\$43.28
02/1998	\$34.52	108.3	\$39.11	07/2001	\$41.38	117.1	\$43.36
03/1998	\$34.55	108.4	\$39.11	08/2001	\$41.98	117.1	\$43.99
04/1998	\$34.73	108.3	\$39.35	09/2001	\$42.16	117.4	\$44.06
05/1998	\$34.97	108.7	\$39.47	10/2001	\$42.21	116.8	\$44.34
				11/2001	\$45.61	115.8	\$48.33

<i>Month</i>	<i>Nominal price of 200 cigarettes (Canada)</i>	<i>Consumer Price Index, All- Items</i>	<i>Real price of 200 cigarettes, Nov. 2003 \$</i>	<i>Month</i>	<i>Nominal price of 200 cigarettes (Canada)</i>	<i>Consumer Price Index, All- Items</i>	<i>Real price of 200 cigarettes, Nov. 2003 \$</i>
12/2001	\$45.71	115.9	\$48.39	01/2003	\$61.53	121.4	\$62.19
01/2002	\$45.74	116.2	\$48.30	02/2003	\$62.70	122.3	\$62.91
02/2002	\$46.27	116.9	\$48.57	03/2003	\$63.10	122.8	\$63.05
03/2002	\$47.77	117.7	\$49.80	04/2003	\$63.47	121.9	\$63.89
04/2002	\$49.92	118.4	\$51.73	05/2003	\$64.56	122	\$64.93
05/2002	\$51.53	118.6	\$53.31	06/2003	\$64.62	122.1	\$64.94
06/2002	\$55.69	119	\$57.42	07/2003	\$64.65	122.2	\$64.91
07/2002	\$60.02	119.6	\$61.58	08/2003	\$64.78	122.5	\$64.89
08/2002	\$60.14	120.1	\$61.44	09/2003	\$64.88	122.7	\$64.88
09/2002	\$60.11	120.1	\$61.41	10/2003	\$64.78	122.4	\$64.94
10/2002	\$61.12	120.5	\$62.24	11/2003	\$65.29	122.7	\$65.29
11/2002	\$61.34	120.8	\$62.30				
12/2002	\$61.40	120.4	\$62.57				

## Sources:

- 1) Nominal price information from Statistics Canada, CANSIM, Table 326-0012 — Average retail prices for food and other selected items, monthly (Dollars) - Cigarettes, 200
- 2) Statistics Canada, CANSIM, Table 326-00011,2,3,4,5 — Consumer price index (CPI), 2001 basket content, monthly (Index, 1992=100) — All Items
- 3) Real price: calculation from nominal price, based on All-Items CPI

## SALES OF CIGARETTES BY PROVINCE BY YEAR, 1995-2002

<i>Year</i>	<i>British Columbia</i>	<i>Alberta</i>	<i>Saskatchewan</i>	<i>Manitoba</i>	<i>Ontario</i>
1995	4,083,240,000	4,479,939,000	883,435,000	1,183,234,000	18,974,651,680
1996	4,170,953,325	4,428,522,900	1,234,957,000	1,253,289,000	19,616,049,000
1997	4,152,321,000	4,509,401,000	1,227,789,000	1,282,090,000	18,723,092,900
1998	4,136,450,000	4,742,799,000	1,241,564,000	1,304,586,000	19,074,844,550
1999	4,086,424,000	4,660,844,000	1,222,244,000	1,306,926,400	18,872,036,200
2000	4,011,315,160	4,626,398,425	1,200,144,725	1,295,653,200	18,278,940,725
2001	4,057,169,760	4,745,249,975	1,190,410,275	1,301,011,000	17,598,138,995
2002	3,795,268,155	4,044,044,405	1,042,594,110	1,146,699,045	16,372,785,308
<b>As proportion of total Canadian sales</b>					
2001	9.7%	11.3%	2.8%	3.1%	41.9%
2002	10.1%	10.8%	2.8%	3.1%	43.6%

<i>Year</i>	<i>Québec</i>	<i>New Brunswick</i>	<i>Nova Scotia</i>	<i>Prince Edward Island</i>	<i>Newfoundland &amp; Labrador</i>
1995	12,979,596,860	987,154,000	1,486,649,400	205,589,600	446,391,000
1996	13,376,783,925	1,091,368,600	1,563,552,600	170,478,000	432,405,000
1997	12,652,038,010	993,967,400	1,519,368,400	161,910,000	418,343,000
1998	11,965,651,295	1,016,761,175	1,481,769,000	177,843,400	414,368,000
1999	11,560,161,400	1,063,176,800	1,475,762,800	194,661,000	430,729,000
2000	10,773,898,165	1,082,857,025	1,455,817,550	201,191,125	418,374,400
2001	10,131,853,025	1,017,629,230	1,346,776,400	181,209,550	427,879,400
2002	8,527,277,817	833,599,850	1,191,518,420	159,329,965	384,712,485
<b>As proportion of total Canadian sales</b>					
2001	24.1%	2.4%	3.2%	0.4%	1.0%
2002	22.7%	2.2%	3.2%	0.4%	1.0%

<i>Year</i>	<i>Yukon</i>	<i>Northwest Territories</i>	<i>Nunavut</i>	<i>Canada total</i>
1995	n/a	110,000	n/a	45,709,990,540
1996	n/a	n/a	n/a	47,338,359,350
1997	n/a	n/a	n/a	45,640,320,710
1998	n/a	n/a	n/a	45,556,636,420
1999	n/a	n/a	n/a	44,872,965,600
2000	n/a	15,760,200	7,844,000	43,368,194,700
2001	600	17,107,800	24,150,800	42,038,586,810
2002	0	17,332,400	23,087,400	37,538,249,360
<b>As proportion of total Canadian sales</b>				
2001	0.0%	0.0%	0.1%	
2002	0.0%	0.0%	0.1%	

### Source:

Sales data as reported to Health Canada. Data does not include roll-your-own.

Appendix G

# **PROVINCIAL/TERRITORIAL TAXES (INCL. SALES TAXES) ON TOBACCO, RANKED IN DESCENDING ORDER, DECEMBER 2003**

	<i>200 Cigarettes</i>	<i>200 Sticks</i>	<i>200 fine cut cigarettes (100 g)</i>
Northwest Territories	42.00	27.20*	13.60
Saskatchewan	36.24	35.37	17.82
Manitoba	35.87	34.86	16.52
British Columbia	35.80	35.80	17.90
Newfoundland	35.49	34.33	17.35
Alberta	32.00	32.00	16.00
Nova Scotia	31.21	30.05	13.83
Nunavut	31.20	31.20*	8.60
Prince Edward Island.	29.90	25.98	11.74
New Brunswick	28.47	22.34	10.32
Yukon	26.40	9.36*	4.68
Québec	20.60	20.60	10.30
Ontario	19.70	19.70	9.85

\* Nunavut, NWT and Yukon tax tobacco sticks by weight; rate given is for 200 g.

Appendix H

# **FEDERAL AND PROVINCIAL/TERRITORIAL TOBACCO TAX RATES (WITHOUT SALES TAXES), DECEMBER 2003.**

	<i>200 cigarettes</i>	<i>200 sticks</i>	<i>200 fine cut cigarettes (100 g)</i>
Federal	15.85	11.60	5.40
Newfoundland	30.00	30.00	15.00
Prince Edward Island	29.90	25.98	11.74
Nova Scotia	26.04	26.04	11.74
New Brunswick	23.50	18.90	8.49
Québec	20.60	20.60	10.30
Ontario	19.70	19.70	9.85
Manitoba	31.00	31.00	14.50
Saskatchewan	32.00	32.00	16.00
Alberta	32.00	32.00	16.00
British Columbia	35.80	35.80	17.90
Yukon	26.40	9.36 *	4.68
Northwest Territories	42.00	27.20 *	13.60
Nunavut	31.20	31.20*	8.60

\* Nunavut, NWT and Yukon tax tobacco sticks by weight; rate given is for 200 g.



## FEDERAL &amp; PROVINCIAL TAX RATES

	Provincial tobacco taxes	Federal excise duty	Product cost*	Retail price before sales tax	Provincial sales tax	PST (\$)	Fed. GST (%)	Fed GST (\$)	Final retail price	Total provincial Taxes	Total federal Taxes	Total taxes, federal and provincial	Federal taxes (incl. GST) as % of total price	Federal taxes (incl. GST) as % of total taxes
<b>Per 200 cigarettes</b>														
NF	30.00	15.85	22.74	68.59	8%	5.49	7%	4.80	78.88	35.49	20.65	56.14	26%	37%
PEI	29.90	15.85	22.74	68.49	0%	0.00	7%	4.79	73.28	29.90	20.64	50.54	28%	41%
NS	26.04	15.85	22.74	64.63	8%	5.17	7%	4.52	74.32	31.21	20.37	51.58	27%	39%
NB	23.50	15.85	22.74	62.09	8%	4.97	7%	4.35	71.40	28.47	20.20	48.66	28%	42%
QC	20.60	15.85	22.74	59.19	0%	0.00	7%	4.14	63.33	20.60	19.99	40.59	32%	49%
ON	19.70	15.85	22.74	58.29	0%	0.00	7%	4.08	62.37	19.70	19.93	39.63	32%	50%
MB	31.00	15.85	22.74	69.59	7%	4.87	7%	4.87	79.33	35.87	20.72	56.59	26%	37%
SK	32.00	15.85	22.74	70.59	6%	4.24	7%	4.94	79.77	36.24	20.79	57.03	26%	36%
AB	32.00	15.85	22.74	70.59	0%	0.00	7%	4.94	75.53	32.00	20.79	52.79	28%	39%
BC	35.80	15.85	22.74	74.39	0%	0.00	7%	5.21	79.60	35.80	21.06	56.86	26%	37%
YK	26.40	15.85	22.74	64.99	0%	0.00	7%	4.55	69.54	26.40	20.40	46.80	29%	44%
NT	42.00	15.85	22.74	80.59	0%	0.00	7%	5.64	86.23	42.00	21.49	63.49	25%	34%
NU	31.20	15.85	22.74	69.79	0%	0.00	7%	4.89	74.68	31.20	20.74	51.94	28%	40%

Appendix I

FEDERAL & PROVINCIAL TAX RATES (CONTINUED)

	Provincial tobacco taxes	Federal excise duty	Product cost	Retail price before sales tax	Provincial sales tax	PST (\$)	Fed. GST (%)	Fed. GST (\$)	Final retail price	Total provincial Taxes	Total federal Taxes	Total taxes, federal and provincial	Federal taxes (incl. GST) as % of total price	Federal taxes (incl. GST) as % of total taxes
<b>Per 200 tobacco sticks*</b>														
NF	30.00	11.60	12.50	54.10	8%	4.33	7%	3.79	62.22	34.33	15.39	49.72	25%	31%
PEI	25.98	11.60	12.50	50.08	0%	0.00	7%	3.51	53.59	25.98	15.11	41.09	28%	37%
NS	26.04	11.60	12.50	50.14	8%	4.01	7%	3.51	57.66	30.05	15.11	45.16	26%	33%
NB	18.90	11.60	12.50	43.00	8%	3.44	7%	3.01	49.45	22.34	14.61	36.95	30%	40%
QC	20.60	11.60	12.50	44.70	0%	0.00	7%	3.13	47.83	20.60	14.73	35.33	31%	42%
ON	19.70	11.60	12.50	43.80	0%	0.00	7%	3.07	46.87	19.70	14.67	34.37	31%	43%
MB	31.00	11.60	12.50	55.10	7%	3.86	7%	3.86	62.81	34.86	15.46	50.31	25%	31%
SK	32.00	11.60	12.50	56.10	6%	3.37	7%	3.93	63.39	35.37	15.53	50.89	24%	31%
AB	32.00	11.60	12.50	56.10	0%	0.00	7%	3.93	60.03	32.00	15.53	47.53	26%	33%
BC	35.80	11.60	12.50	59.90	0%	0.00	7%	4.19	64.09	35.80	15.79	51.59	25%	31%
YK	9.36	11.60	12.50	33.46	0%	0.00	7%	2.34	35.80	9.36	13.94	23.30	39%	60%
NT	27.20	11.60	12.50	51.30	0%	0.00	7%	3.59	54.89	42.00	16.23	42.39	28%	28%
NU	31.20	11.60	12.50	55.30	0%	0.00	7%	3.87	59.17	31.20	15.47	46.67	26%	33%
<b>Per 200 roll-your-own cigarettes (100 grams of fine-cut tobacco)</b>														
NF	15.00	5.40	9.00	29.40	8%	2.35	7%	2.06	33.81	17.35	7.46	24.81	22%	30%
PEI	11.74	5.40	9.00	26.14	0%	0.00	7%	1.83	27.97	11.74	7.23	18.97	26%	38%
NS	11.74	5.40	9.00	26.14	8%	2.09	7%	1.83	30.06	13.83	7.23	21.06	24%	34%
NB	8.49	5.40	9.00	22.89	8%	1.83	7%	1.60	26.32	10.32	7.00	17.32	27%	40%
QC	10.30	5.40	9.00	24.70	0%	0.00	7%	1.73	26.43	10.30	7.13	17.43	27%	41%
ON	9.85	5.40	9.00	24.25	0%	0.00	7%	1.70	25.95	9.85	7.10	16.95	27%	42%
MB	14.50	5.40	9.00	28.90	7%	2.02	7%	2.02	32.95	16.52	7.42	23.95	23%	31%
SK	16.00	5.40	9.00	30.40	6%	1.82	7%	2.13	34.35	17.82	7.53	25.35	22%	30%
AB	16.00	5.40	9.00	30.40	0%	0.00	7%	2.13	32.53	16.00	7.53	23.53	23%	32%
BC	17.90	5.40	9.00	32.30	0%	0.00	7%	2.26	34.56	17.90	7.66	25.56	22%	30%
YK	4.68	5.40	9.00	19.08	0%	0.00	7%	1.34	20.42	4.68	6.74	11.42	33%	59%
NT	13.60	5.40	9.00	28.00	0%	0.00	7%	1.96	29.96	13.60	7.36	20.96	25%	35%
NU	8.60	5.40	9.00	23.00	0%	0.00	7%	1.61	24.61	8.60	7.01	15.61	29%	45%

## FEDERAL &amp; PROVINCIAL TAX RATES (CONTINUED)

	Provincial tobacco taxes	Federal excise duty	Product cost	Retail price before sales tax	Provincial sales tax	PST (\$)	Fed. GST (%)	Fed. GST (\$)	Final retail price	Total provincial Taxes	Total federal Taxes	Total taxes, federal and provincial	Federal taxes (incl. GST) as % of total price	Federal taxes (incl. GST) as % of total taxes
<b>Per 200 grams of fine-cut tobacco (roll-your-own)</b>														
NF	30.00	10.80	12.00	52.80	8%	4.22	7%	3.70	60.72	34.22	14.50	48.72	24%	30%
PEI	23.48	10.80	12.00	46.28	0%	0.00	7%	3.24	49.52	23.48	14.04	37.52	28%	37%
NS	23.48	10.80	12.00	46.28	8%	3.70	7%	3.24	53.22	27.18	14.04	41.22	26%	34%
NB	16.98	10.80	12.00	39.78	8%	3.18	7%	2.78	45.75	20.16	13.58	33.75	30%	40%
QC	20.60	10.80	12.00	43.40	0%	0.00	7%	3.04	46.44	20.60	13.84	34.44	30%	40%
ON	19.70	10.80	12.00	42.50	0%	0.00	7%	2.98	45.48	19.70	13.78	33.48	30%	41%
MB	29.00	10.80	12.00	51.80	7%	3.63	7%	3.63	59.05	32.63	14.43	47.05	24%	31%
SK	32.00	10.80	12.00	54.80	6%	3.29	7%	3.84	61.92	35.29	14.64	49.92	24%	29%
AB	32.00	10.80	12.00	54.80	0%	0.00	7%	3.84	58.64	32.00	14.64	46.64	25%	31%
BC	35.80	10.80	12.00	58.60	0%	0.00	7%	4.10	62.70	35.80	14.90	50.70	24%	29%
YK	9.36	10.80	12.00	32.16	0%	0.00	7%	2.25	34.41	9.36	13.05	22.41	38%	58%
NT	27.20	10.80	12.00	50.00	0%	0.00	7%	3.50	53.50	27.20	14.30	41.50	27%	34%
NU	17.20	10.80	12.00	40.00	0%	0.00	7%	2.80	42.80	17.20	13.60	30.80	32%	44%

*\*In the case of Nunavut, NWT and Yukon, per 200 grams of sticks*

*Tax rates as compiled by Finance Canada. Product cost for cigarettes derived from tax rate data and Statistics Canada data on Canadian average price of 200 cigarettes, Nov. 2003, according to proportion of cigarette sales by province in 2002 (see Appendix F).*

*Product cost figures for tobacco sticks and fine-cut tobacco are illustrative estimates provided by Finance Canada.*

*Estimated product cost does not necessarily reflect diverse selling conditions across country.*

# FEDERAL AND PROVINCIAL TOBACCO TAX REVENUE (\$000s), 1990-2003

	1990-1991	1991-1992	1992-1993	1993-1994	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003
<b>Tax revenues reported in provincial budgets or public accounts</b>													
NF	54,140	55,311	61,733	67,806	67,567	65,805	63,619	64,000	64,000	65,100	65,500	79,500	90,500
PEI	17,111	18,298	18,077	17,839	12,364	13,486	13,858	13,009	13,400	14,233	14,297	17,487	21,737
NS	117,811	104,993	102,004	90,151	60,423	67,712	86,344	75,800	74,598	76,543	77,500	105,751	145,420
NB	75,190	59,600	50,300	43,500	34,900	37,000	39,000	42,358	46,679	47,808	49,783	69,672	91,912
QC	585,800	513,100	411,300	288,200	184,000	264,591	283,112	323,000	490,000	498,000	483,000	652,000	867,000
ON	875,000	1,028,000	969,000	773,000	324,000	337,000	356,000	425,000	447,000	481,000	504,000	703,000	1,215,000
MB	116,109	129,861	128,174	123,212	116,120	112,425	109,638	112,917	114,919	112,531	121,479	135,500	178,000
SK	100,977	104,618	115,270	110,813	115,588	114,180	116,869	123,631	123,000	123,866	122,012	120,049	158,472
AB	275,080	322,078	313,114	312,000	322,078	311,041	317,000	330,000	341,333	339,339	340,000	373,000	618,000
BC	346,500	433,000	483,200	482,400	516,700	482,300	487,900	486,000	505,100	468,000	460,000	470,000	610,000
Federal	2,417,680	3,312,002	2,980,040	2,569,994	1,914,351	1,941,050	2,031,000	2,049,058	2,230,187	2,111,158	2,157,657	2,629,114	3,146,481
Total	4,981,399	6,080,860	5,632,213	4,878,915	3,668,089	3,746,591	3,904,340	4,044,773	4,450,216	4,337,578	4,395,229	5,235,504	7,142,522
<b>Consumer Price Index (July): July 2003 = 122.2</b>													
Sept	93.8	98.9	100.2	102.0	102.2	104.5	106.1	107.8	108.6	111.4	114.4	117.4	120.1
<b>Tax revenues adjusted for inflation (stated in 2003 \$)</b>													
Total	6,489,627	7,513,459	6,868,826	5,845,131	4,385,915	4,381,181	4,496,799	4,585,076	5,007,517	4,758,098	4,694,903	5,574,020	7,267,412
Federal	3,149,685	4,092,282	3,634,340	3,078,953	2,288,979	2,269,822	2,339,191	2,322,772	2,509,474	2,315,830	2,304,770	2,736,608	3,201,499
ON	1,139,925	1,270,188	1,181,754	926,084	387,405	394,080	410,021	481,772	502,978	527,632	538,364	731,743	1,236,245
QC	763,164	633,982	501,605	345,275	220,008	309,407	326,072	366,147	551,363	546,280	515,932	678,658	882,160
BC	451,410	535,011	589,292	577,934	617,815	563,991	561,936	550,920	568,354	513,372	491,364	489,216	620,666
AB	358,366	397,957	381,862	373,788	385,107	363,724	365,103	374,082	384,078	372,237	363,182	388,250	628,806

## Sources:

Public Accounts and Budgets of each jurisdiction.

Appendix K

## PRE-TAX EARNINGS\*, IMPERIAL TOBACCO AND ROTHMANS, BENSON & HEDGES, 1986-2002

	<i>Imperial Tobacco (million)</i>	<i>Rothman's Benson &amp; Hedges (million)</i>
1986	\$208	\$41
1987	\$279	\$85
1988	\$308	\$94
1989	\$334	\$108
1990	\$367	\$114
1991	\$397	\$129
1992	\$432	\$147
1993	\$462	\$158
1994	\$592	\$173
1995	\$645	\$168
1996	\$705	\$177
1997	\$775	\$196
1998	\$815	\$188
1999	\$871	\$187
2000	\$914	\$205
2001	\$959	\$245
2002	\$1,031	\$240

\* *Earnings before interest income, extraordinary items and income taxes*

### Sources:

Annual Reports for IMASCO, Imperial Tobacco and Rothmans Inc.

**MARKET SHARE OF FINE-CUT BY PROVINCE**

	2001*	2002*	Percentage increase
<b>Sales of roll-your-own by province</b>			
British Columbia	406,500,000	469,504,000	15.5%
Alberta	675,929,000	654,749,000	-3.1%
Saskatchewan	278,520,000	284,306,000	2.1%
Manitoba	260,799,000	285,399,000	9.4%
Ontario	275,191,000	371,674,000	35.1%
Québec	903,294,000	876,729,000	-2.9%
New Brunswick	202,844,000	253,174,000	24.8%
Nova Scotia	249,026,000	280,257,000	12.5%
Prince Edward Island	35,399,000	41,606,000	17.5%
Newfoundland	259,210,000	286,159,000	10.4%
Yukon	n/a	n/a	n/a
Northwest Territories	2,523,000	2,879,000	14.1%
Nunavut	3,020,000	3,933,000	30.2%
Canada (total calculated)	3,552,255,000	3,810,369,000	7.3%
<b>Roll-your-own as a share of total market, by province *</b>			
British Columbia	10%	12%	
Alberta	13%	15%	
Saskatchewan	20%	22%	
Manitoba	18%	21%	
Ontario	2%	3%	
Québec	9%	10%	
New Brunswick	18%	24%	
Nova Scotia	17%	20%	
Prince Edward Island	17%	21%	
Newfoundland	35%	39%	
Yukon	n/a	n/a	
Northwest Territories	14%	15%	
Nunavut	12%	15%	
Canada (total calculated)	9%	10%	

\* Expressed in cigarette-equivalents, assuming 0.6 g of roll-your-own = 1 cigarette, and assuming sales of tobacco sticks (data for which have yet to be compiled by Health Canada) are proportional to sales of roll-your-own. For sales volumes of cigarettes by province, see Appendix F.

## CANADIAN TOBACCO TAX INCIDENCE, COMPARED TO THE UNITED STATES AND EUROPEAN COUNTRIES

Country	Total taxes, as percentage of retail price	Total taxes per carton, in C\$	Price per carton, in C\$ (1)	Increase in taxes since January 1994 (nominal, in local currency)
Ireland	86%	\$67.09	\$78.23	82%
Denmark	82%	\$51.58	\$63.16	3%
United Kingdom (2)	80%	\$89.73	\$112.36	87%
Portugal	78%	\$25.52	\$32.84	65%
Belgium	77%	\$33.69	\$44.04	26%
Finland	76%	\$47.32	\$62.60	n/a (3)
France (4)	75%	\$45.97	\$60.99	87%
Italy	75%	\$24.12	\$32.30	50%
Germany (5)	75%	\$39.32	\$52.68	40%
Austria	75%	\$31.35	\$42.05	n/a (3)
Netherlands	74%	\$32.81	\$44.28	46%
Greece	73%	\$22.18	\$30.49	45%
Spain	72%	\$26.36	\$36.71	273%
Sweden	70%	\$44.88	\$64.38	65%
Luxembourg	69%	\$22.46	\$32.56	n/a (3)
<b>Canada</b>	<b>66%</b>	<b>\$42.53</b>	<b>\$64.65</b>	<b>16%</b>
United States (6)	25%	\$14.63	\$57.95	89%

(1) European prices as of Oct. 1st, 2002, for most popular price category, as compiled by European Commission; US prices as of November 2002, converted to Can\$ at exchange rates prevailing at time price was measured; Canadian price as of July 2003 (Statistics Canada data)

(2) Not including UK tax increase in spring 2003

(3) Sweden, Finland and Austria were not EU members in 1994, so comparable statistics are not available.

(4) Not including impact of French tax increase announced in July 2003, expected to increase retail price by 18-20%

(5) Not including the impact of the recently agreed 1 Euro / pack increase in German taxes = approx. \$15 per carton

(6) Sales-weighted average, not including generic brands, as calculated in *The Tax Burden on Tobacco*, vol. 37 (2002). The tax incidence figure for the United States is not directly comparable to other countries, since it does not include the impact of manufacturers' payments to state governments under the terms of the 1998 Master Settlement Agreement, totalling approximately US\$10 billion per year.

## DETAILED CALCULATION OF ESTIMATED INCREASE IN FEDERAL TOBACCO TAX REVENUE

	Volume 2002 (billion)	Volume 2003 (1) (billion)	Unit tax rate (2)	Total estimated 2003 revenue (billion) (1)	Recommended tax increase per unit (2)	Revenue increase from tax changes if no change in volume (billion)
Cigarettes	38.2	34.38	\$0.07925	\$ 2.72	\$ 0.02500	\$ 0.86
Sticks	1.9	1.9	\$0.05800	\$ 0.11	\$ 0.04625	\$ 0.09
Roll-your-own	5.3	5.3	\$0.02200	\$ 0.12	\$ 0.07725	\$ 0.41
Total				\$ 2.95		\$ 1.36
				(billion)		
Total estimated 2003 Revenue (1)				\$ 2.95		
Revenue Increase From Tax Changes if no Change in Industry Volume				\$ 1.36		
TOTAL				\$ 4.31		
Further decrease of 10% in volume (3)				\$ 0.43		
Total tobacco tax revenue after tax increases				\$ 3.88		
Total estimated annualized revenue (1)				\$ 2.95		
Net Increase in Revenue				\$ 0.93		

(1) Based on an estimated decrease in cigarette volume of 10% (with tobacco stick and roll-your-own volumes holding steady) due to tax and other tobacco control policies already in place

(2) Per cigarette, per tobacco stick, and per 0.5g of roll-your-own tobacco based on increases of \$5.00 per 200 cigarettes, \$9.25 per 200 tobacco sticks, and \$15.45 per 200 roll-your-own cigarettes (100g).

(3) The further decrease of 10% in overall volume is generous and increases the conservativeness of the revenue estimate. For example, a \$5.00 per carton increase in Ontario and Québec represents about a 10% increase in retail prices with sales taxes factored in. Based on a price elasticity of -0.4, this would lead to a decrease in these provinces of about 4%. In Western provinces where the retail price is higher, a \$5.00 per carton increase leads to a retail price increase of about 8%, or a decrease in sales of about 3.2%. The recommended increases for tobacco sticks and roll-your-own are much larger, and would greatly shrink the size of the tobacco stick and roll-your-own segments due to both quitting and consumers switching to cigarettes. (If cigarettes and cigarette alternatives are taxed at the same rate, the latter does not overall affect revenue.) The 10% overall decline in industry volume assumes that roughly one-third of existing tobacco stick and roll-your-own consumers would quit

(4) Note that industry volumes may decrease for reasons other than federal tobacco tax increases. This would result in a decrease in federal revenue whether or not there is a federal tax increase. Thus the amount of incremental federal revenue may be somewhat less than \$930 million if the overall industry decline is more than 10%, due to other factors.



Appendix O

# CHANGES IN FEDERAL, PROVINCIAL AND TERRITORIAL TOBACCO TAXES, 1994-2003

<i>Effective Date</i>	<i>Jurisdiction</i>	<i>Tax Increase on 200 cigarettes</i>	<i>Comments</i>
May 13, 1994	Québec	\$ 0.60	
Feb. 18, 1995	Federal	\$ 0.60	Applies in Ontario and Québec
Apr. 1, 1995	Federal	\$ 1.00	Applies in Prince Edward Island
	Prince Edward Island.	\$ 1.00	
May 10, 1995	Québec	\$ 0.72	
Nov. 6, 1995	Nova Scotia	\$ 3.28	Restructures tax. P.S.T. removed from tobacco products but tobacco taxes increased.
Nov. 29, 1996	Federal	\$ 0.70	Applies in Ontario, Québec, New Brunswick, Nova Scotia
	Ontario	\$ 0.70	
	Québec	\$ 0.70	
	New Brunswick	\$ 0.70	
	Nova Scotia	\$ 0.70	
Dec. 12, 1996	Federal	\$ 0.70	Applies in Prince Edward Island
	Prince Edward Island.	\$ 0.70	
Mar. 20, 1997	Saskatchewan	\$ 0.80	
Mar. 25, 1997	Québec	\$ 0.28	
			Tax restructuring due to HST implementation
Apr. 1, 1997	New Brunswick		P.S.T. falls from 11% to 8%, no changes are made to tobacco tax rates.
	Nova Scotia	(\$ 2.14)	P.S.T. on tobacco increases from 0% to 8%, but tobacco taxes decrease.
	Newfoundland and Labrador	\$ 1.44	P.S.T. falls from 12% to 8% but tobacco taxes increase
Jan. 1, 1998	Québec		Québec sales tax increases from 7.0% to 7.5%.
Feb. 14 1998	Federal	\$ 0.60	Applies in Ontario, Québec, Nova Scotia, and Prince Edward Island
	Federal	\$ 0.40	Applies in New Brunswick
	Ontario	\$ 0.60	
	Québec	\$ 0.60	
	New Brunswick	\$ 0.40	
	Nova Scotia	\$ 0.60	

<i>Effective Date</i>	<i>Jurisdiction</i>	<i>Tax Increase on 200 cigarettes</i>	<i>Comments</i>
	Prince Edward Island.	\$ 0.60	
Jun. 23, 1998	Québec	\$ 2.06	Restructures tax. P.S.T. removed from tobacco products but tobacco taxes increased
Mar. 27, 1999	Saskatchewan	\$ 0.40	
Apr. 1, 1999	Nunavut		Nunavut established; Northwest Territories tax rate in force until changed.
Nov. 6, 1999	Federal	\$ 0.60	Applies in Ontario, Québec, New Brunswick, Nova Scotia , Prince Edward Island
	Ontario	\$ 0.60	
	Québec	\$ 0.60	
	New Brunswick	\$ 0.60	
	Nova Scotia	\$ 0.60	
	Prince Edward Island.	\$ 0.60	
May 11, 2000	Manitoba	\$ 1.20	
Oct. 1, 2000	Northwest Territories		
Feb. 22, 2001	Yukon	\$ 2.00	
Apr. 6, 2001	Federal	\$ 2.00	Applies in Ontario, Québec,
		\$ 0.30	Applies in New Brunswick
		\$ 0.10	Applies in Nova Scotia
		\$ 1.35	Applies in Prince Edward Island
	Ontario	\$ 2.00	
	Québec	\$ 2.00	
	New Brunswick	\$ 3.70	
	Nova Scotia	\$ 3.90	
	Prince Edward Island.	\$ 2.65	
Nov. 2, 2001	Federal	\$ 2.00	Applies in Québec
		\$ 1.60	Applies in Ontario
		\$ 1.50	Applies in rest of Canada.
	Ontario	\$ 1.60	
	Québec	\$ 2.50	
	New Brunswick	\$ 2.50	
	Nova Scotia	\$ 2.50	
	Prince Edward Island.	\$ 2.00	

<i>Effective Date</i>	<i>Jurisdiction</i>	<i>Tax Increase on 200 cigarettes</i>	<i>Comments</i>
Feb. 20, 2002	British Columbia	\$ 8.00	
Mar. 20, 2002	Alberta	\$ 18.00	
Mar. 22, 2002	Nfld & Lab	\$ 5.00	
Mar. 27, 2002	Prince Edward Island.	\$ 5.00	
Mar. 28, 2002	Saskatchewan	\$ 14.80	
Apr. 5, 2002	Nova Scotia	\$ 5.00	
Apr. 22, 2002	Manitoba	\$ 9.80	
Apr. 22, 2002	Northwest Territories	\$ 6.00	
May 1, 2002	Nunavut	\$ 6.00	
Jun. 1, 2002	Yukon	\$ 6.00	
Jun. 17, 2002	Federal	\$ 3.50	Applies throughout Canada
	Ontario	\$ 8.30	Ont. increased cigarette taxes by \$5.00 per 200 and restructured taxes by removing 7% P.S.T. on tobacco products and increasing cigarette taxes by a corresponding \$3.30 per 200.
	Québec	\$ 5.00	
	New Brunswick	\$ 5.00	
Dec. 10, 2002	New Brunswick	\$ 4.00	
Jan. 9, 2003	Nova Scotia	\$ 5.00	
Feb. 19, 2003	British Columbia	\$ 2.00	
Mar. 28, 2003	Newfoundland and Labrador	\$ 3.00	
Apr. 1, 2003	Northwest Territories	\$ 8.80	
Apr. 12, 2003	Prince Edward Island.	\$ 7.00	
Apr. 23, 2003	Manitoba	\$ 2.00	
Nov. 25, 2003	Ontario	\$ 2.50	
Dec. 5, 2003	Québec	\$ 2.50	
Dec. 20, 2003	British Columbia	\$ 3.80	

# ESTIMATING THE GROSS LOSS OF FEDERAL AND PROVINCIAL TAX REVENUE DUE TO THE FAVOURABLE TREATMENT OF ROLL-YOUR-OWN

Province	12 months to June 30th, 2003									
	2000									
	RYO sales,* all Canada	Market share of RYO 2001	Calculated RYO sales*	Federal discount**	Provincial discount**	Federal revenue forgone***	Provincial Revenue forgone***	RYO sales,* all Canada	Market share of RYO 2001	Calculated RYO sales*
	4,100,000							4,500,000		
BC		11.46%	469,914	\$7.37	\$8.80	\$17.3	\$20.7		12.34%	555,472
AB		19.06%	781,374	\$7.37	\$9.20	\$28.8	\$35.9		17.21%	774,636
SK		7.85%	321,969	\$7.37	\$7.96	\$11.9	\$12.8		7.47%	336,363
MB		7.35%	301,484	\$7.37	\$7.96	\$11.1	\$12.0		7.50%	337,656
ON		7.76%	318,121	\$5.27	\$2.12	\$8.3	\$3.4		9.77%	439,729
QC		25.47%	1,044,208	\$4.87	\$6.02	\$25.4	\$31.4		23.05%	1,037,261
NB		5.72%	234,488	\$7.07	\$4.71	\$8.3	\$5.5		6.66%	299,531
NS		7.02%	287,874	\$7.27	\$5.62	\$10.5	\$8.1		7.37%	331,573
PEI		1.00%	40,921	\$6.02	\$9.16	\$1.2	\$1.9		1.09%	49,224
NF		7.31%	299,646	\$7.37	\$13.20	\$11.0	\$19.8		7.52%	338,556
Total						\$133.9	151.5			4210.8
<b>Total revenue loss (federal and provincial)</b>						<b>\$285.4</b>		<b>\$468.8</b>		

\* In thousands of cigarette equivalents, calculated at 0.6 g = 1 cigarette — see note below

\*\* per 200 cigarette equivalents

\*\*\* in millions; note that these estimates do not include the impact of tax increases in Ontario, Québec and British Columbia in late 2003, which increased the effective tax discount on roll-your-own products.

## Source:

1) Imperial Tobacco financial reports; 2) Sales data as reported to Health Canada; 3) Tax data as compiled by Finance Canada.

### What is being estimated

This is not a revenue projection of what would occur if governments adjusted the tax rates applied to roll-your-own tobacco. Instead, it is an estimation of how much more revenue governments would have earned if the tax rate applied to manufactured cigarettes had been applied to roll-your-own, cigarette for cigarette, *assuming everything else had remained the same*, i.e. that there had been no extra quitting because of the tax increase, no shift from higher- to lower-density brands of roll-your-own, no shift from roll-your-own to cigarettes etc.

### Choice of periods to measure

The only published data on sales of roll-your-own by province are sales data reported to Health Canada by manufacturers. (See Appendix L.) These numbers are available only on a calendar-year basis, and only for 2001 and 2002. (Previous to mid-2000, sales data for tobacco sticks and other products was lumped in with roll-your-own.) In years where tax rates changed, it is not possible to know the rate at which roll-your-own was taxed and thus to calculate the revenue forgone by governments through favourable tax treatment of roll-your-own.

This is a negligible problem for the year 2000, since only one province (Manitoba) increased taxes in that year, and there was no federal increase.

In 2002, every jurisdiction in Canada increased its taxes, in many cases by a significant amount. Most of the activity occurred in the first half of the year. In the first half of 2003, six jurisdictions increased tobacco taxes, but either the increase was small (e.g., British Columbia, with \$2 per carton of 200 cigarettes) or the jurisdiction was relatively small (e.g., Prince Edward Island).

We therefore chose to look at roll-your-own sales in the 12 months to June 30<sup>th</sup>, 2003, as reported by Imperial Tobacco for Canada as a whole and allocated between provinces under the plausible but unproven assumption that provincial shares of the roll-your-own market did not shift significantly between 2002 and 2003.

Similarly, to estimate sales by province in 2000, we used Imperial Tobacco data, assuming that provincial shares did not shift significantly between 2000 and 2001.

We used the tax rates that were in effect at the *end* of each 12-month period to estimate the amount of forgone revenue.

### Choice of conversion factor

In the absence of more precise information, we assume that Imperial Tobacco's implied equivalency factor of 0.6 g of roll-your-own = 1 cigarette is a fair approximation of the sales-weighted average for all roll-your-own brands, under present market conditions.