

Backgrounder

The Tobacco Transition Program

The stated purpose of the Tobacco Transition Program was to help farmers exit the industry. The public was never told that about \$50 million dollars of the \$286 million spent on the program would be transformed into a public subsidy for continued tobacco growing.

The Ministers said

the TTP was to help farmers stop growing tobacco.

On August 1, 2008 Gerry Ritz announced that \$286 million was being made available to help tobacco producers exit the industry. The announcement came just one day after the Government announced a settlement of \$1.1 billion of government claims for unpaid taxes by the tobacco industry. The Minister made the apparent link between the two events explicit, telling the CBC that the money for the farmers came from the money received from the settlement agreement of the day before.¹ The Minister of Agriculture and Agri-Food Canada, the Honourable Gerry Ritz's stated several times in 2008 and 2009 that the purpose was to help tobacco producers exit the industry. No other purpose was provided.

August 1, 2008: AAFC press release announced:

"The Government of Canada is providing more than \$300 million to Ontario's flue-cured tobacco producers, including \$286 million for a Tobacco Transition Program to help them exit the tobacco industry, and \$15 million for community development initiatives."²

August 1, 2008: Minister Diane Finley

The money is to finance a federal strategy to help farmers find new crops and get out of the tobacco industry altogether, said Immigration and Citizenship Minister Diane Finley, who represents the tobacco-rich Ontario riding of Haldimand-Norfolk.¹

March 26, 2009: Quoted in the media:

"The purpose of the program is clear: it must help producers exit the industry."³

March 30, 2009: Responding to a question in the House of Commons

"We have allocated some \$286 million to start to move them out of the tobacco industry and transition into other great crops."⁴

The Department said

the TTP was to help farmers stop growing tobacco.

Official Treasury Board and AAFC documents of 2009 also stated that the purpose of the TTP was to help tobacco producers exit the tobacco industry. They did not state that TTP recipients would be permitted to continue growing tobacco.

January, 2009: AAFC Fact Sheet:

“Funding will be available for producers who wish to transition out of the industry. Producers participating in the program will not be able to re-enter tobacco production.”⁵

September 4, 2009: AAFC press release:

“Tobacco producers have already benefited from the \$285 million to transition from the industry when they retired 99.8 percent of their quota through the program this spring.”⁶

February 13, 2009: AAFC Proactive Disclosure on Grant and Contribution Awards:

“Under the Tobacco Transition Program, funding is provided to help flue-cured tobacco producers exit the industry.”⁷

Parliament was told

the TTP was to help farmers stop growing tobacco.

No document tabled in Parliament by the government provided any purpose to the Tobacco Transition Program other than helping farmers exit the industry.

2008-2009 Departmental Performance Reports:

“Description: The Program facilitated the transition of Ontario flue-cured tobacco quota holders wishing to exit the industry.”⁸

February 12, 2009: Supplementary Estimates (C), 2008-09

“Funding to facilitate the transition of Ontario flue-cured tobacco producers to exit the industry (Tobacco Transition Program – Buyout Element)”⁹

February 12, 2009: Introduction to the Supplementary Estimates:

“The objective of the buyout element of the Program is to facilitate the transition of Ontario flue-cured tobacco producers to exit the industry...”¹⁰

November 4, 2009: Supplementary Estimates B

“Funding to support implementation of the Community Development Fund program to assist rural communities in the tobacco-growing region of Ontario to transition to a non-tobacco based economy.”¹¹

Agriculture and Agri-Food Canada. Reports on Plans and Priorities, 2010-2011

“AAFC will assist rural communities in tobacco-growing region of Ontario to transition to a non-tobacco based economy.”¹²

People believed

the TTP was to help farmers stop growing tobacco.

Many individuals and institutions believed these statements of the Minister of AAFC and federal government institutions. They included the Ontario Minister of Agriculture, Food and Rural Affairs, and the CBC, among others:

April 29, 2010: Letter from Hon. Carol Mitchell, Ontario Minister of Agriculture, Food and Rural Affairs to the Hon. Gerry Ritz:

“When the TTP was announced by your government in 2008, our understanding was that it was intended to help tobacco producers exit the industry, transition to other crops or find new opportunities outside agriculture.”¹³

CBC news: August 1, 2008

“Ottawa is giving tobacco farmers more than \$300 million in a long-awaited effort to help them give up the crop for good, a pair of cabinet ministers said Friday.”¹

Meanwhile there were hidden objectives

Documents released under Access to Information rules in April 2011 reveal that the TTP had 3 purposes: help farmers exit, replace the quota system with a free-market license structure and make tobacco farming more profitable.

- **February 13, 2009 (but made public April 2011): Funding Agreement between AAFC and the Ontario Flue Cured Tobacco Growers Marketing Board**

“2.2.1 the removal of the quota system...

2.2.2 an easier transition of producers out of Tobacco-growing industry by making payments to Eligible Recipients who agree to participate in the TTP: and

2.2.3 improved viability of remaining and future tobacco producers who will produce Tobacco under a licensing system in Ontario.”¹⁴

*None of these statements of objectives, whether loudly or quietly revealed, communicated clearly what really happened, that TTP recipients would be allowed to continue to be involved, on a paid basis, in the tobacco growing industry.*¹⁵

The hidden objectives were exactly in line with the tobacco industry’s preferences.

The cost of growing tobacco in Canada is much higher than in many developing countries. Were it not for its desirable quality and unique flavour characteristics of particular appeal to Canadian smokers, it is unlikely that any tobacco would be grown in Canada. Nevertheless, Canadian tobacco is so highly desired by Canadian tobacco manufacturers that for over thirty years, from 1978 to 2008, in cooperation with the tobacco farmers, they operated a two-price system for tobacco leaf.¹⁶

Leaf for domestic use was purchased at a high price, while leaf for export was purchased at a price closer to world market values. Then the average price was computed and compared to a previously agreed-upon target price for the entire crop. The difference between the average price and the target price would be made up in the form of a make-up payment by the Canadian tobacco companies, to be distributed among the farmers.

This make-up payment was substantial, averaging about \$60 million per year and was a *de facto* private subsidy that sustained tobacco growing in Canada. The make-up payment system ended in 2008. Prior to that time, the tobacco industry was increasingly restive. They wanted to continue to buy Canadian-grown tobacco, but they did not want to continue to pay the make-up payment. This was clearly in line with company policy, determined in head offices. A 2004 BAT presentation to investment analysts stated that BAT wanted control of the tobacco leaf supply chain. Middlemen, like the OFCTGMB, were to be cut out. BAT wanted “no third party profit margins” and “direct contact with the farmers to improve efficiency.”¹⁷

By August 1, 2008, the tobacco industry was well on its way to getting what it wanted. On July 31, 2008, they paid \$1.1 billion to governments in settlement of claims for non-payment of excise taxes in the early 1990s. The very next day Gerry Ritz promised nearly one-third of that money to tobacco farmers. “Ritz said the money is coming from the fine of more than \$1 billion levied by an Ontario judge Thursday against two of Canada's largest tobacco companies,” reported the CBC. Minister Ritz also said, “The money comes with no strings attached.”¹ But there were strings attached. The quota system would be shut down, just like the tobacco industry wanted, and no more make-up payments would be made, just like the industry wanted.

April 1, 2009 onwards

Beginning in 2009, many tobacco farmers took advantage of this financial gift from the taxpayers and restructured their businesses, on paper at least, so that they appeared as employees rather than owner-entrepreneurs. They continue to farm tobacco, selling their tobacco on contract to tobacco companies, instead of through the previous auction system at the marketing board. According to a 2010 audit report submitted to AAFC,¹⁸ in 2009, there were 118 tobacco licensees. They paid 133 people who also received TTP payments* for their labour and/or rental of their land, buildings and equipment. In 2009, 133 recipients of over \$30 million dollars in TTP money continued to be involved in tobacco growing.

In 2010, there were 251 tobacco licensees in Canada, and they grew about 27 tonnes of tobacco, more than twice the amount grown in 2008, the year before the TTP came into effect.

* TTP recipients received an average of \$272,000 each. Assuming the 133 who participated in tobacco growing in 2009 also received an average of \$272,000 each in TTP payments, collectively those 133 would have received \$36 million in TTP payments in March 2009.

In 2011, there are 193 tobacco licensees, somewhat fewer than in 2010, largely because one start-up leaf buying company is now in severe financial difficulty and is no longer permitted to offer tobacco growing contracts.¹⁹ If, as seems likely, there is at least one TTP recipient associated with each tobacco growing licence, recipients of over \$50 million in subsidies from the public purse, ostensibly to help them exit the tobacco business, continue to be involved in the tobacco growing business.

The tobacco companies no longer pay make-up payments of \$60 million a year to Canadian farmers. In effect, private subsidies for tobacco growing in Canada have been replaced by public subsidies.

For most commodities, farmers measure their profit per acre in two or three digit numbers. By comparison, tobacco growing was very profitable in Ontario in 2009. With no need any longer to buy or rent quota, according to the audit report, “the net profit is approximately \$2,000 per acre, representing over 40% of the revenue.”¹⁸

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- ¹³ [Letter of Carol Mitchell of April 29, 2010 to Gerry Ritz and his reply of July 19, 2010. Pages 1739-1741 in documents obtained under ATI.](#)
- ¹⁴ [DM Briefing. Tobacco Transition Program \(TTP\): Program Objectives, Rules and Audit/Evaluation Results. 2010. Pages 906-923 in documents obtained under ATI.](#) See especially page 922.

¹⁵ [Letter of Greg Meredith, Assistant Deputy Minister, AAFC to Linda Vandendriessche, Chair, OFCTGMB, May 7, 2009.](#) Page 980 in documents obtained under ATI.

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