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# A proposal for managing tobacco supply reduction in Ontario 2005 to 2030

## Principles

- A fair plan that treats farmers with dignity and respect and provides for an orderly phase-out of tobacco with a minimum of economic dislocation and hardship.
- A plan that supports public health objectives of reducing tobacco supply and demand, and that meets agreed-upon targets for reduction in production by specified dates.
- A plan entered into in good faith by tobacco growers and public health agencies to achieve sustainable management of planned reductions in tobacco leaf supply and continued steady reductions in tobacco consumption in Canada and around the world.
- A plan that is paid for by an increase in the surtax on tobacco company profits, thereby involving no new cost to ordinary Canadian taxpayers.
- A made-in-Canada solution for a unique Canadian problem. There exists a long and successful Canadian tradition of supply management run as cooperative enterprises by farmers, for farmers. This plan will build on this tradition. Co-operative organizations, legitimately representative of the majority of tobacco farmers will be key players in the proposed long-term orderly supply reduction strategy.

## Exit payment plan for farmers

- Every tobacco farm owner-operator who owned quota in March 2005, and who exits the business between now and 2030 will receive $3.00 per pound, adjusted for inflation, base year 2005, for basic production quota (BPQ) that he or she owned in March 2005.
- Exit payments will be made by Agriculture Canada, with recommendations and administrative assistance from a tobacco farmers co-operative.
- All quota owned by an individual, including quota rented to sharegrowers, must be retired at the same time, and payment for retired quota would be made in a single lump sum payment.

- Farmers who exit the business and receive payments of $3.00 per pound for BPQ must agree to the following conditions:
    - They will no longer grow tobacco or engage in paid employment on a tobacco farm.
    - Tobacco will not be grown on their land.
    - In the event of the sale of their land, a condition of sale of their land is that tobacco will not be grown there. If possible, the same condition would attach to the land for all subsequent sales.

**Tobacco policy requirements for the OFCTGMB and other tobacco farmers' organizations**

- No participation in tobacco trade missions or tobacco trade fairs.
- Quota retirements will trigger immediate decreases in total BPQ equal to the total of quota retired.
- Quota retirements between June 1 and May 31 of the following year will also trigger proportional decreases in the maximum crop size for the following year.
    - Here is an example of what this would mean:
        - Suppose before May 31, 2005, 100 farmers who own 32.35 million pounds of quota (10% of the total), choose to exit the business. The OFCTGMB must then reduce the total stock of BPQ by 32.35 million pounds, from 323.5 million pounds to 291 million pounds. Therefore, the maximum allowable sale of tobacco for the 2005 crop year would be 10% less than in 2004, when it was 87.9 million pounds. It would therefore be 79 million pounds in 2005.
- Regardless of the number of farmers exiting, with 2004 as a base year, the maximum marketed crop must be reduced by a minimum of 3.5 million pounds per year until 2014, and by at least 5% per year from 2015 to 2030. If these targets cannot be met simply by farmers exiting the industry, then the Board must impose a ceiling on marketed quota so that the targets are met.
- If manufacturers order so much tobacco that the minimum target of 3.5 million pounds reduction per year cannot be met, then the maximum amount allowed for export must be reduced so that the target will be met.

**Alternate economic activity and economic development strategy**

- The federal government will make available a sum of up to $10 million dollars per year for 10 years, from 2005 to 2014 and $2 million per year from 2016 to 2030 to support social and economic development proposals that will result in employment of exiting tobacco farmers and former tobacco workers. Proposals will be invited from social and economic development agencies in the tobacco-growing region. While more than one agency may receive funding, large proposals from consortia of agencies will be encouraged, as will co-funding arrangements with governmental and non-governmental agencies.

**Paying for the exit strategy with an increase in the surtax on tobacco company profits**

- If all farmers eventually exit the tobacco growing business, the total cost of this scheme to government over 25 years would be $1.08 billion in 2005 dollars. It is anticipated that most of the expenditure would be in the first five years, with many farmers exiting the business initially and fewer thereafter.
- The scheme would be financed by an increase in the existing surtax on tobacco company profits, structured in such a way so as to yield at least an additional $80 million per year. This is about what tobacco companies have been paying anyway as make-up payments to support the two-price system of the OFCTGMB. The tobacco industry has already demonstrated an ability to pay about this amount of money to tobacco farmers. They have been doing it for years as make-up payments.

**Smuggling, contraband and counterfeit cigarette control strategy**

- Police forces will be required to step up their vigilance in stopping shipments of counterfeit and smuggled cigarettes.
- OFTGMB will report all suspected illegal activity, including such suspected activity by licensed growers, to the police.
- OFTGMB will refuse all sales at auction to suspected smugglers and counterfeiters.
- OFTGMB and other tobacco farmers' organizations will carefully monitor monthly official flue-cured tobacco import and export statistics. Any movements in trends that raise suspicion of illegal activity will be reported to the police.
- The Excise Act will be amended to require origin markings on cigarettes manufactured in Canada and exported to other countries.
- Revenue Canada, Finance Canada and the RCMP will collaborate to improve markings on tobacco packages to facilitate definitive tracking and tracing of tobacco products.
- Government agencies have adequate funds to control contraband tobacco. In 2001, the government announced that the Canada Customs and Revenue Agency, the RCMP, the Department of the Solicitor General and Justice Canada would have $55 million for the period 2001-2006 to control cigarette contraband.

- Health agencies and tobacco farmers will join together in pressing for funding for continued tobacco contraband surveillance and enforcement beyond 2006.

**Program management, oversight and modification**

- The program would be governed by a Memorandum of Understanding entered into among the participating parties – OFCTGMB, other tobacco farmers' organizations, OMAF, AAFC, Health Canada, participating non-governmental health agencies. All would be represented on the oversight committee.
- The oversight committee would meet once a year or more often if needed to ensure the smooth functioning of the exit strategy.
- The oversight committee would review progress, based on reports submitted by AAFC, OMAF, OFCTGMB and other tobacco farmers' organizations. The committee would ensure that agreed-upon targets were being met and that required payments were being made.
- The oversight committee would review economic development proposals and make recommendations for funding to AAFC.
- By mutual agreement of members of the oversight committee the terms and conditions of this agreement can be modified, as long as the modified agreement is still an effective instrument for achieving the exit strategy objectives.