

THE CANADIAN TOBACCO MARKET

TOBACCO IS STILL BEING GROWN IN ONTARIO

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Tobacco is still being grown in Ontario

In March, 2009, Ontario tobacco farmers received \$286 million in federal payments, ostensibly to stop growing tobacco and make the transition to other farm or non-farm ventures. But tobacco is still being grown in Ontario. Worse, some of the taxpayers' money (perhaps about 10%-20% of the total) did not fund transition away from tobacco, but is in fact subsidizing continuing tobacco growing. How did this happen?

By tracking new reports from August, 2008, we can discover how it happened, but not necessarily why

August 1, 2008: Gerry Ritz, Minister of Agriculture and Agri-Food 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."

February 18, 2009: Agriculture and Agri-Food Canada officials held an information session in Delhi, Ontario to explain how the \$286 million was to be disbursed. The rules proposed did not exclude transfer of quota (except to a spouse or dependent children) before March 16, 2009. The deadline for applying for buyout of quota at \$1.05 per pound was proposed as March 23, 2009.

March 20, 2009: A front-page story in the *London Free Press* explained that the possibility of transferring quota was a loophole that would allow the buyout money to be diverted from its intended purpose of buying out tobacco farmers to subsidizing further tobacco growing. The news story explained it this way:

HOW THE LOOPHOLE WORKS

- *A tobacco farmer who has one million pounds of quota transfers all of his quota to his 80-year-old father before the March 16 deadline.*

- *The elderly man applies for the federal tobacco transition money, qualifies and receives \$1.05 million. He agrees never to grow tobacco again.*
- *He and his son informally split the \$1.05 million.*
- *The son continues to grow tobacco and is able to expand his operation with the federal money, since he is not bound by his father's agreement to leave the industry.*

March 26, 2009: The Honourable Gerry Ritz, Minister of Agriculture and Agri-Food was quoted in the *Brantford Expositor* as saying:

"While the vast majority of farmers are using the program properly, we are concerned with reports that some farmers may attempt to skirt the spirit of the program. That's why we have an agreement with the tobacco marketing board to ensure that the spirit of the program is respected. I have directed the tobacco board to ensure that no one can undermine the program by receiving a payment and continuing to produce tobacco. The purpose of this program is clear: it must help producers exit the industry."

March 26 to May 7, 2009: Following Minister Ritz' statement, the buyout program was modified considerably. The deadlines for quota transfer was extended to March 30, 2009, conveniently allowing already executed quota transfers to be undone, in the light of Minister Ritz' statement. Quota that had been transferred was transferred back to its original owners. Further negotiations took place between the Ontario Flue-Cured Tobacco Growers' Marketing Board and Agriculture and

Agri-Food Canada about how the Tobacco Transition Program would be modified.

April 13, 2009: It was reported in the *Brantford Expositor* that all but 18 of the 1,083 eligible tobacco quota holders applied for buy-out monies. Quota holders would receive, on the average, a payment of about \$275,000. Holders of large amounts of quota would receive amounts closer to half a million to one million dollars.

May 7, 2009: A letter from Greg Meredith, Assistant Deputy Minister of Agriculture and Agri-Food addressed to Linda Vandendriessche, Chair of the Ontario Flue-Cured Tobacco Growers' Marketing Board, clarified that the program, while containing smaller deliberate loopholes than before, would still contain deliberate loopholes that would allow some people to benefit from buyout monies, yet continue to benefit from being involved in tobacco growing operations. Mr. Meredith stated:

"Based on these principles, if a TTP participant provides documentation to demonstrate to the Ontario Flue-Cured Tobacco Grower's Marketing Board that he or she has a business relationship or arrangement with a licensee that is at arm's length, where payments received from the licensee for rent or wages are at fair market value and are not based on profits or losses from tobacco production, then the TTP participant could rent land and/or equipment to a family member; rent land to and become an employee of a licensee; and/or loan or co-sign a loan for a licensee."

June 1, 2009: The Ontario Farm Products Marketing Commission dissolves the eleven-member elected Ontario Flue-Cured Tobacco Growers' Marketing Board and replaces it with a five-member appointed Board to oversee the new contract buying system that replaces the former auction system. Under the new system, a prospective tobacco grower must have a

contract for purchase of his or her crop from a licensed tobacco manufacturer before being granted a licence to grow tobacco by the OFCTGMB.

July 21, 2009: The *Tillsonburg News* reported that there are 118 licensees who continue to grow tobacco under contract to tobacco manufacturers. This is exactly one hundred more than the 18 who were reported on April 13, 2009 not to have taken the buyout.

It is safe to assume that tobacco manufacturers would prefer to enter into a contract with a tobacco growing enterprise that was run by or employed experienced tobacco growers, in particular, former quota holders.

It would therefore seem that about 100 individuals have taken advantage of the loophole outlined by Mr. Meredith on May 7, 2009. They were able to keep their buyout monies and continue to be involved in tobacco growing.

While 80% to 90% of the \$301 million promised on August 1, 2008 was spent legitimately to help tobacco farmers exit the industry, about 10% to 20% of the money was diverted to a contrary purpose. Contrary to the government's stated purpose to help farmers exit the tobacco industry, some amount, estimated to be in the range of \$30 million to \$60 million, about 10%-20% of the total, is being spent to help sustain tobacco growing in Ontario.

August, September 2009: Tobacco plants were topped (removal of flowers to promote further leaf growth) and tobacco was harvested. How much tobacco did the 118 licensees grow? Under the new contract buying system, there is no longer public knowledge of this information.

However, knowledgeable observers estimate that about 20 million pounds of tobacco were grown in Norfolk and Elgin counties of Ontario, about the same as in 2008. The contract buying system substantially changes the power in price negotiations in favour of manufacturers, thereby lowering the price paid per pound for leaf tobacco. If manufacturers succeed in further driving down the unit price of tobacco for the coming crop year, the amount of

tobacco grown in Ontario could well increase in 2010, as farmers attempt to meet their cost by increasing production.

September 4, 2009: The \$15 million earmarked for community development in Gerry Ritz' August 1, 2008 announcement was invested in the Sand Plains Community Development Fund, announced by the federal government on September 4, 2009.

That is how it happened. Why it happened is harder to discern.

From the February 18, 2009 information session documentation, it is clear that Agriculture and Agri-Food Canada (AAFC) intended for some of the money to be used to subsidize further tobacco growing, and many tobacco farmers and their Marketing Board were only too happy to play along with this intent. When this chicanery was exposed in the press in March, 2009, Gerry Ritz, the AAFC Minister ordered the loophole closed and firmly stated, "The purpose of this program is clear: it must help producers exit the industry."

But no sooner had one loophole closed, another one opened. Just six weeks later, Mr. Meredith, a senior official in Mr. Ritz' department wrote to the Marketing Board, giving AAFC blessing to some limited ways that former quota holders who took the buyout could continue to work full-time in tobacco growing, either in their own family business or in association with other tobacco growing enterprises. The way was clear for some of those who took the buyout to continue to be involved in tobacco growing operations and even to use the buyout monies received to subsidize tobacco growing. It seems that some tobacco farmers, the Marketing Board and Agriculture and Agri-Food Canada were all willing partners in this scheme that in effect diverted \$30 million of taxpayers' money from its stated purpose of helping farmers exit tobacco growing to helping around 100 or so farmers to stay in tobacco growing. By their actions, officials of Agriculture and Agri-Food Canada intended this to happen. We can only conclude that this diversion of funds happened because AAFC officials intended it to happen.

Notable by its absence in this saga is any consideration of health issues. There is no evidence that Health Canada was consulted on this matter. Earlier attempts by Physicians for a Smoke-Free Canada to become involved in discussions leading up to the Tobacco Transition Program were rebuffed by AAFC.

Health matters. Public health protection has been weakened by the structural changes that have taken place in Canada's tobacco leaf supply system. The most significant structural change was the abandonment of supply management through a government-controlled quota and auction system and its replacement by a manufacturer-controlled contract-buying system. Here are several ways that this will have negative impacts on public health protection.

- There will no longer be full and detailed public information available on the amount of tobacco grown in Canada. Full monitoring of tobacco growing for public health and other purposes will not be possible.
- While there were no meaningful public health controls on tobacco growing under the government-controlled quota and auction system, such control would have been at least possible in the future. Now, this is no longer the case.
- Pricing power has shifted from growers (who want high prices for tobacco leaf) to manufacturers (who want low prices). There will be constant downward pressure on prices for leaf, which will make cigarette prices lower than they would have been otherwise. In the short term, farmers will be able to accept lower prices because of the *de facto* government subsidy of \$30-\$60 million through diversion of Tobacco Transition Program funds. In the longer term, manufacturers will use their global oligopoly power, and their ability to buy tobacco anywhere in the world, to force Canadian growers to accept low prices, or go out of business in the face of competition from lower-priced leaf grown in developing countries.
- Downward pressure on prices will also create upward pressure on supply. If forced by manufacturers to accept lower prices per kilogram of tobacco leaf, tobacco farmers would be happy to accept contracts for larger quantities of leaf as they struggle to realize an acceptable rate of return for their enterprises. The amount of leaf requested by manufacturers may well increase if contraband cigarette sales are curbed sometime in the future.
- If, however, contraband sales are not significantly reduced, there may well be other negative consequences for public health. Under the contract buying system, controls on the amount of tobacco grown and the policing of tobacco growing and sales has been significantly weakened. It has become easier for both licensed and unlicensed growers to supply black marketers. We can expect that many tobacco farmers will yield to the temptation to enter into the illegal supply of tobacco leaf to the contraband market.

Lessons learned and policy implication for the future

Tobacco use remains Canada's biggest single unsolved public health problem. There are nearly five million tobacco users and tobacco causes 37,000 deaths a year, far more than any other product, behaviour or risk factor.

In the face of such a daunting public health problem, there ought to be at least public health input, and preferably public health control over every aspect of the tobacco business, from seed to smoke. Regrettably, this is not the case.

This saga of the diversion of funds in the Tobacco Transition Program provides a bitter lesson in what can happen, absent such public health input or control. Public money has been diverted to purposes opposite to what it was intended for and public health progress against the tobacco epidemic has been slowed. Moreover, the new system of tobacco leaf supply could potentially impede progress against the tobacco epidemic still more in the future.

It is not only tobacco agriculture that is outside the purview of public health authorities. Public health authorities have little or no say in tobacco contraband control, tobacco taxation, supply management of unmanufactured and manufactured tobacco, tobacco imports, tobacco exports, tobacco product distribution or tobacco industry business practices. The *Tobacco Act* does give Health Canada legislative control over tobacco product composition, reporting, labelling, advertising and promotion. Provincial, territorial and federal laws have also made 100% of indoor workplaces and public places smoke-free. However, without meaningful public health input to, or preferably control over, every other aspect of the tobacco business, we risk continuing to undermine the tobacco control measures we do have with actions antithetical to tobacco control in tobacco agriculture and many other areas of tobacco business practice and government interaction with the tobacco industry.

In recent years, unchecked tobacco contraband, a slowdown in tobacco taxation increases and now restructuring and government subsidization of tobacco growing have all combined to stall progress in tobacco control. The number of smokers in Canada has remained steady at about five million since 2005. Canada's tobacco control program, once billed as comprehensive, has to change. If we are to make further progress against the tobacco epidemic, the meaning of "comprehensive" has to be taken to a new level. There has to be public health oversight over every aspect of the tobacco business, from seed to smoke. Only then will we be able to resume making effective progress in rolling back Canada's tobacco epidemic.