

Medical Action Médicale



Bulletin of

**PHYSICIANS FOR A
SMOKE-FREE CANADA**

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THE 1994 TOBACCO TAX CUT: A FIVE-YEAR REVIEW

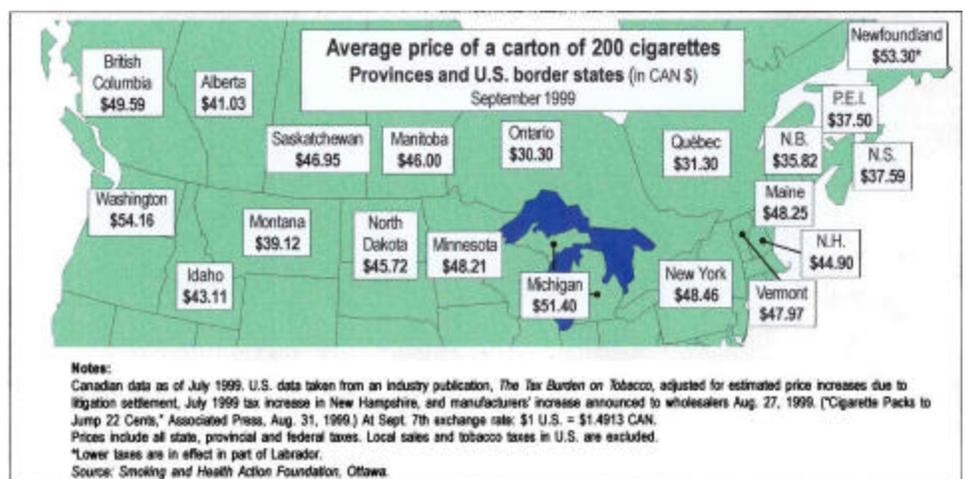
Five and a half years have elapsed since the dramatic, smuggling-induced tobacco tax rollback of 1994, which reduced the price of cigarettes by about half in much of Canada.

The public health consequences of this rollback are now well established. Public health has suffered as decades-long progress against tobacco use has slowed dramatically. Low cigarette prices have neutralized the beneficial impact of advertising and promotion restrictions, of improved package warnings, of smoke-free environments and of public education has been undermined by low cigarette prices.

On the financial side, Canadian governments have relinquished billions of dollars in revenue as a result of the 1994 rollback. Tobacco industry profits, meanwhile, have continued to set new records, year after year, with annual pre-tax profits increasing by a staggering 62% between 1993 and 1998.

Canadian cigarettes are now among the lowest priced and least taxed in the industrial world. Cigarettes in U.S. border states are now CDN\$17 per carton more expensive than in Ontario and Quebec, because multibillion-dollar litigation settlement payments to U.S. state governments have been passed on to smokers through hefty cigarette price increases. Other alleged incentives to smuggle have been similarly addressed. Moreover, tobacco industry participation in contraband activities along the Canada-U.S. border has been exposed, leading to both prosecutions and convictions. (In at least two cases, investigations continue.)

The 1994 tax reduction was presented as a temporary measure which would be reversed as smuggling was brought under control. This temporary measure is entering its sixth year, and risks permanency. The time has long pasts for the government to restore cigarette prices to levels high enough to protect young Canadians from becoming addicted to cigarettes and high enough to encourage Canadian smokers to reduce the amount they smoke – or, better yet, to quit.



TOBACCO TAXES & HEALTH

Governments presented the 1994 tobacco tax rollback as a temporary, strategic retreat that in no way signalled diminished commitment to protecting the health of Canadians from the disastrous effects of tobacco products and the misleading marketing of the tobacco industry. Five years later, a sober examination of the facts shows that very serious damage has been done and continues to be done, far beyond what governments predicted at the time of the rollback. Lower cigarette prices have injured public health by increasing cigarette smoking to levels higher than would otherwise be the case. They have also robbed public finances of billions of dollars. Five years later, it is also clear who gained most from the rollback: tobacco companies, which continue to set new profit records and have added to their Canadian customer base for decades to come.

High- and Low-tax Regions: A unique policy comparison

Although cigarette taxes were reduced by \$5.00 per carton throughout Canada on February 8, 1994, subsequent cuts were much less evenly felt. Five provinces elected to join the federal government in reducing the price of cigarettes. Five provinces made no reductions at all.

As a result, cigarettes in the 'high-tax' provinces (British Columbia, Alberta, Saskatchewan, Manitoba and Newfoundland) are almost twice as expensive as they are in 'low-tax' provinces (Ontario, Quebec, New Brunswick, Nova Scotia, Prince Edward Island).

City	Price per 200 cigarettes	Price per 200 cigarettes
	Jan 94	Jan 99
St. John's	\$59.43	\$52.07
Yellowknife	\$46.62	\$50.77
Vancouver	\$51.30	\$50.11
Regina	\$48.83	\$48.23
Winnipeg	\$48.69	\$45.25
Whitehorse	\$49.10	\$44.31
Edmonton	\$43.47	\$39.92
Saint John	\$48.78	\$38.84
Charlottetown	\$50.02	\$36.71
Halifax	\$49.01	\$36.09
Montreal	\$47.46	\$29.88
Toronto	\$45.57	\$27.95

Source: Statistics Canada, "Tobacco Prices, 1994-1999," custom printout, July 26, 1994.

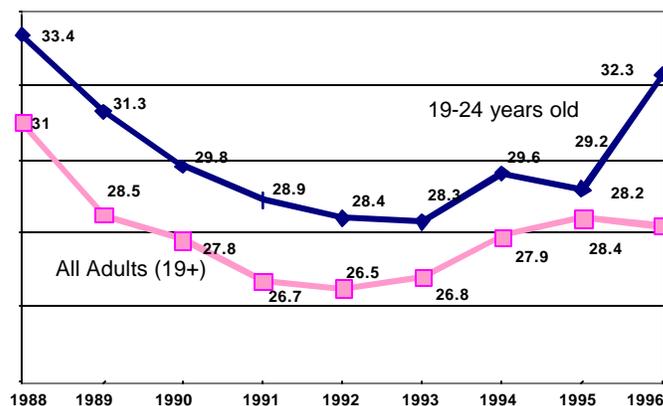
More than 75% of Canadians live in the 'low-tax' provinces.

This variety in cigarette tax policies across Canada has created a unique, if unintended, social laboratory in which to monitor the impact of the cigarette tax rollback and to test cigarette-tax theory.

This unique circumstance provides confidence in assessing the consequences of the tax rollback. The results of this unintended experiment also confirm that high cigarette taxes provide a greater benefit to public health and to public finances than do low cigarette taxes, and strongly support a move to upwardly harmonize cigarette taxes with the levels in Western Canada and in most developed countries.

Smoking Rates among Canadian Adults and Young Adults, 1988 – 1996

Source: data provided by RJR-Macdonald

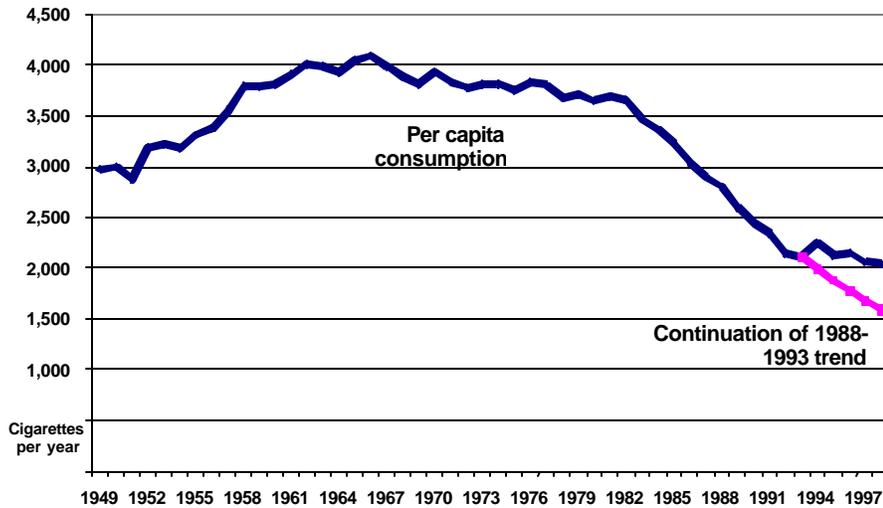


Five Years Later: More Young Canadians are Smoking

Since cigarettes became less expensive in 1994, Canadian government surveys show that more teenagers and more young adults are smoking today than at the beginning of the decade. This is in contrast to sustained, significant declines in smoking prevalence in these age groups since the mid-1970s.

Tobacco industry data (which, unlike government data is collected on a monthly and yearly basis and with consistent methodologies) confirms that smoking rates increased after the 1994 rollback. RJR-Macdonald provided smoking rates to the Non-Smokers' Rights Association in 1997 for the years 1988 to 1996. This company surveys respondents aged 19 or older. While the surveys show an increase in smoking in all age groups after 1994, there is a more pronounced increase among Canadians aged 19-24.

Cigarette Consumption 1, 1949 – 1998, with projection of continued reduction had pre-1994 trend continued



Sources: for a complete list of sources for this table, contact PSC's Ottawa office

For many years, Canadians were the world's heaviest smokers. In 1981, Canadians smoked an average of 3,685 cigarettes per person (over 15 years of age) per year. During the 1980s and early 1990s, this number began to drop significantly: by 1992 it had fallen to 2,143 cigarettes per person (over 15 years of age) per year.

The 1994 tax cut arrested the dramatic progress made in the previous 12 years. If the average decline established between 1988 and 1993 had continued, per capita consumption in 1998 would have been 1,590 cigarettes, compared to the actual figure of 2,042, a difference of fully 22%.

There is a stark difference in reductions of cigarette consumption between the regions of Canada where cigarette taxes were maintained and those where they

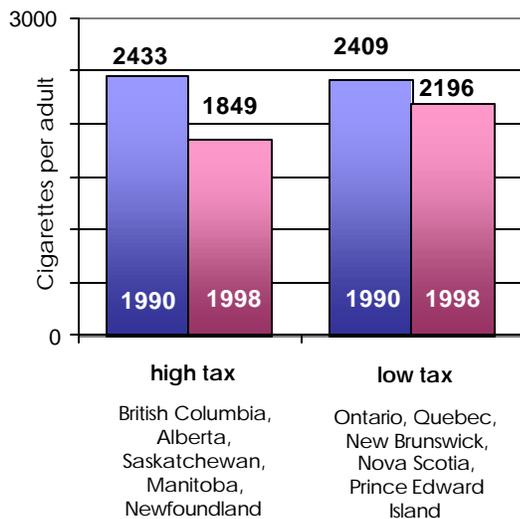
were cut. Per capita consumption in the 'high-tax' provinces dropped by 24% during this eight-year period; in the 'low-tax' provinces, it dropped by less than 9%.

Five Years Later:

Canadians are Smoking More Cigarettes

From a public health perspective, both the number of people who smoke (smoking prevalence) and the amount of cigarettes that are smoked (cigarette consumption) are of consequence. Health is affected both by the number of smokers (each of whose health can be expected to suffer as a result of smoking) and the amount smoked (greater quantities of cigarettes smoked result in greater disease).

Cigarette Consumption Per Capita (15+), 1990 and 1998



Five Years Later:

Governments Lose Billions

When the federal government forecast in 1994 that cutting cigarette taxes would cost the federal treasury \$300 million a year, its prediction was far short of the mark. The annual shortfall in federal tobacco tax revenue was twice the amount forecast, as the Auditor General pointed out in his 1996 report to Parliament. In each fiscal year since the rollback, federal tobacco-tax revenues have been lower than in 1993-94, by an average of \$575 million. This is a conservative estimate of revenue losses, since the reference year (1993-94) included almost two months of the new low-tax regime and since the estimate excludes lost GST revenue.

Like the health consequences, the revenue consequences of this decision continue to be felt. Continued delays in restoring taxes add to the cumulative burden of this decision. Together with losses to provincial treasuries, public finances are \$4.8 billion poorer from reduced tobacco revenues in 1998-99 than they were in 1993-94, not including sales taxes. The cumulative loss to federal revenues for the five-year period is \$2.9 billion, not including GST.

By contrast, provinces which chose to address smuggling with increased enforcement instead of tax cuts experienced very

little tax loss. In aggregate, these five provinces actually increased their tax revenues by \$72 million dollars.

Five Years Later:

Tobacco Industry Profits up \$1.33 billion

Where lower cigarette taxes proved harmful to government tax revenues, they have been a boon to tobacco industry profits. Profit levels continue to spiral upwards, with companies reporting year after year of record-breaking earnings. Moreover, the industry's success in rejuvenating its customer base in the 1990s means this upward trend will likely continue — especially if governments fail to rejuvenate their approach to tobacco taxation.

The major force behind increased tobacco industry profits is the dramatic rise in the wholesale price charged by tobacco companies throughout Canada. According to its annual reports, industry-leader Imperial Tobacco has increased its prices at least six times since 1994.

Each of these price increases highlights an inconsistency in the tobacco industry arguments for low taxes and against export taxes. On the one hand, the companies argue that tax

increases trigger smuggling; on the other hand, this stated concern does not dissuade them from raising their own prices at a rate many times higher than the inflation rate. If smuggling truly were driven by demand and not by supply, it should not make any difference whether price increases are caused by taxation or industry profit-taking.

Since 1994, pre-tax profit margins on Imperial Tobacco cigarettes have increased by 50% — from \$0.40 per package to \$0.60 cents per package (or an increase of \$1.60 per carton). In short, after convincing governments to enter into a price war with smugglers, the industry has rushed in to partially fill the price gap. This opportunistic behaviour, at public expense, deserves a firm government response.

Since 1994, the tobacco tax policy of many provinces and the federal government has led to lost public revenues and losses to public health. There is another loss which should be considered in a review of this policy: the lost opportunity to apply revenues from cigarette taxes to effective programs to reduce smoking.

Five Years Later

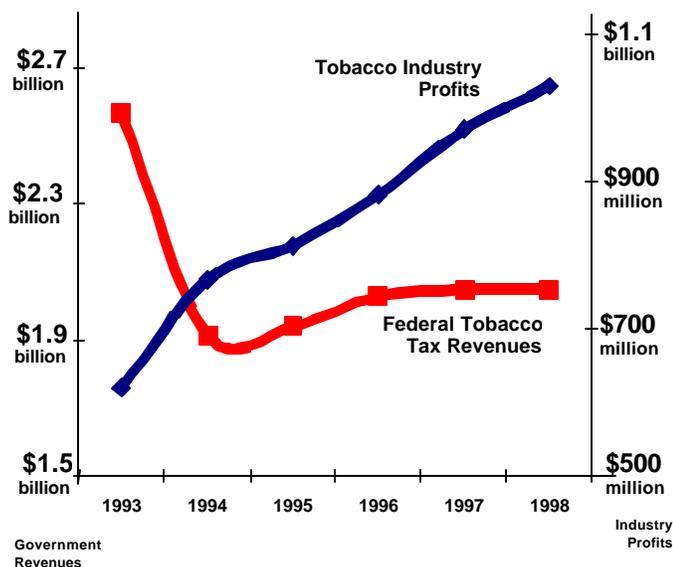
Anti-Smoking Funding Dries Up

When lower cigarette taxes were announced in February 1994, they were accompanied by a modest surtax on tobacco company earnings for three years (at the end of the three years, it was renewed for a further three). This surtax, the Prime Minister assured Parliament "will fund the largest anti-smoking campaign this country has ever seen." (Hansard, February 8, 1994).

In 1994, Health Canada did, in fact, launch the largest anti-smoking campaign this country has ever seen. It was also one of the shortest-lived. And although the health promotion surtax was renewed for a further three years, the "health promotion" measures it funded quickly became fraction of their original levels. In the past five years, the government has collected almost \$400 million in tobacco "health promotion" surtaxes, but would appear to have spent less than half of that on all-tobacco-reduction measures.

Contrasting total government revenues from tobacco sales with money spent on reducing tobacco use reveals an even more glaring discrepancy, because federal tobacco tax revenue is much greater than the new surtax. For every carton of cigarettes sold, the federal government receives approximately \$10 in excise tax and duties, but spends less than 10¢ on all public measures to reduce tobacco use. That is, of the total \$2 billion received in tobacco taxes, the federal government spends only \$20 million on any form of tobacco control. ♦

Tobacco industry pre-tax profits and federal tobacco tax revenues, 1993-94 to 1998-99.



Sources: Public Accounts for each jurisdiction, 1994-95 to 1997-98; budget documents for 1998-99 and annual reports, IMASCO Ltd and Rothmans Inc, 1994 to 1998. Profits for Canada's third manufacturer, RJR-Macdonald are not publicly available nor included in this estimate.

PSC STUDY SHOWS CIGARETTES DESIGNED TO RELEASE MORE NICOTINE

Physicians for a Smoke-Free Canada (PSC) recently released a study today that shows how Imperial Tobacco re-engineered its cigarettes to mislead smokers about the level of poisonous substances they were inhaling.

"Like the U.S. tobacco companies, Imperial Tobacco was manipulating nicotine and other smoke compounds," said Dr. Atul Kapur, an emergency physician and a member of PSC's board of directors. "Unlike the U.S. tobacco companies, they achieved this not by spiking or ammoniating Canadian tobacco, but by designing cigarettes to cause smokers to inhale more cancer-causing tar and addictive nicotine than they would reasonably expect either from the values on the package or from their own smoking impressions."

This is the first research analysis of Canadian tobacco industry documents contained among U.S. industry material released in 1998. The analysis was conducted by Mr. Neil Collishaw, an international specialist in tobacco issues.

The second major trend in the data indicated indicated that increasing filter ventilation produced increased Ames activity.

In the early 1980s, BAT found that adding ventilation to cigarettes increased the mutagenicity of the smoke (according to their own questionable use of the Ames test). Nonetheless, they continued to increase filtration in Canadian cigarettes.

On behalf of PSC, Mr. Collishaw analyzed documents relating to the marketing and research activities of Imperial Tobacco and its British parent, British-American Tobacco (BAT) selected from 10,000 pages collected by Physicians for a Smoke-Free Canada during 1999.

By sequencing the documents, Mr. Collishaw traced the story of how Canada's largest cigarette firm continued to deny in public what it internally admitted was true - that their cigarettes were both addicting and killing their customers. His narrative follows research conducted in Imperial Tobacco's

CONCLUSIONS **COMPARISON OF CIGARETTES:**

- Relative to duMLK, MEM showed a greater level of SPECIFIC biological activity under human smoking conditions.
- duMLK showed a higher level of TOTAL biological activity relative to MEM, under both sets of conditions.

Imperial Tobacco's lab tests shows that the smoke condensate from their extra mild Matinee cigarettes was potentially more dangerous than the smoke from the supposedly higher tar du Maurier Light King Size. The difference was attributed to the different ways that smokers inhaled the ultra-light cigarettes (i.e. from changes in coal temperature).

Montreal Laboratory and hidden from the public. This is the first expose of the deliberate re-engineering of Canadian cigarettes to make them easier to smoke, and harder to quit.

Mr. Collishaw's analysis traces the history of BAT and Imperial Tobacco's research response to the "smoking and health" crises of the 1960s, when smokers learned of the serious health consequences of tobacco use. Two prongs of industry-research were identified in this study. The first was aimed at producing safer ('health-oriented') cigarettes to reduce disease in smokers. The second was aimed at producing more reassuring ('health-image') cigarettes to discourage smokers from quitting.

Neil Collishaw described two generations of 'health-image' cigarettes. "The first is the familiar and conventional 'light' cigarettes of the 1970s and early 1980s. The second, unknown until these documents surfaced, is a new generation of 'brighter lights,' re-engineered over the past 15 years."

The question as to whether such cigarettes are really safer does not matter, although privately even our health people wonder whether low tar and nicotine cigarettes are a good idea.

Imperial Tobacco's senior scientist, Robert Gibb, expressed concerns in 1975 that light cigarettes were actually of no health benefit. The company never shared his opinion with smokers.

The newer cigarette designs of the 1980s and 1990s make it very easy for smokers to compensate without even being aware that they are doing so. Early designs for the lower yield light and mild cigarettes fooled the smoking machines, but not the smokers. They described smoking them as "smoking air". Newer cigarettes fool both the machines and the smokers.

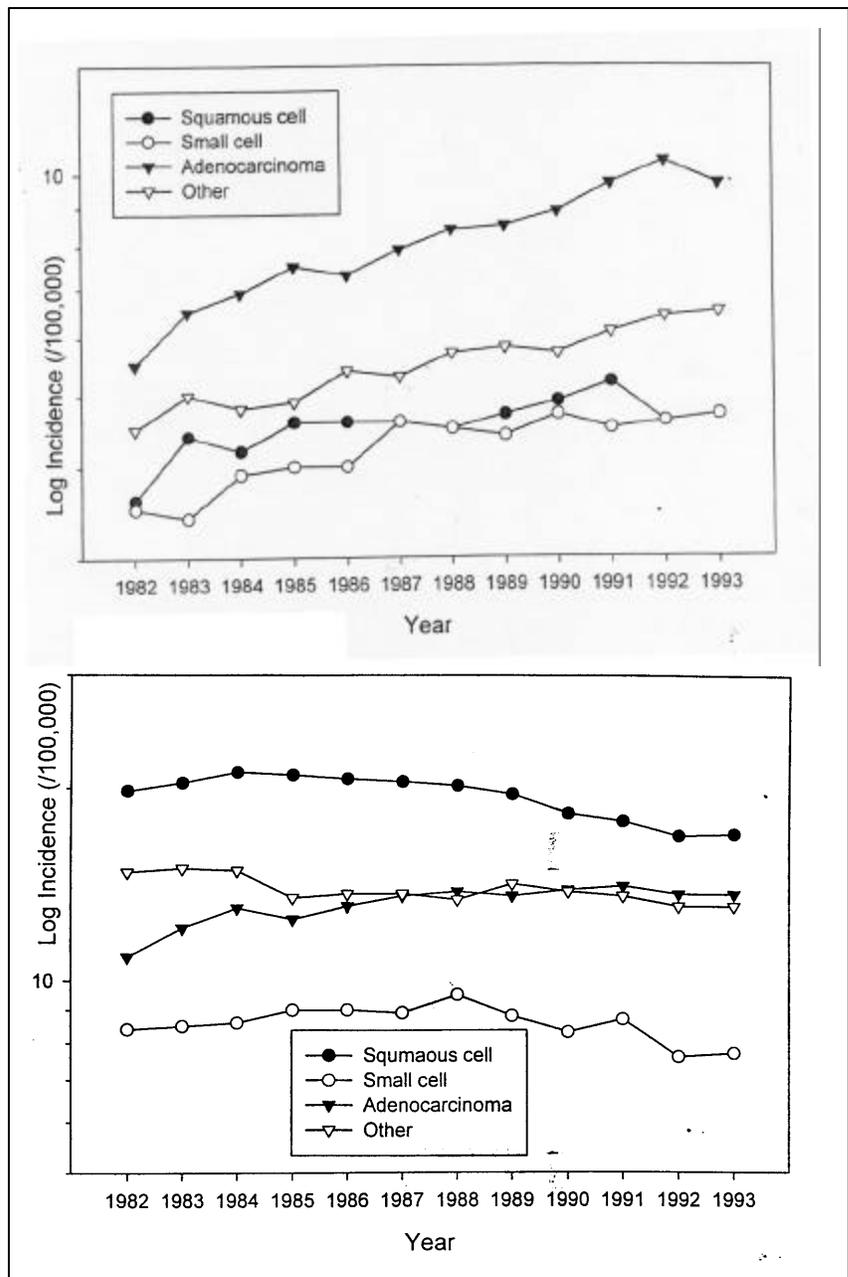
"The documents record the warnings of the company's scientists that these cigarettes could be more dangerous because they resulted in smokers inhaling more smoke, and inhaling it more deeply," said Collishaw. "Not surprisingly, the rates of adenocarcinoma of the lung have risen in the 1980s and 1990s, and the increases is probably caused by the deep inhalation of smoke from so-called light and mild filter cigarettes."

Two major conclusions emerge from PSC's analysis:

- Public health objectives for lower yield cigarettes were subverted by tobacco company actions. Light and mild cigarettes have probably resulted in more smoking, less quitting and more adenocarcinoma of the lung.
- Tobacco companies knew their products were hazardous but publicly denied this knowledge. They knew that cigarettes could give higher yields than advertised, deliberately set about to make sure that smokers would compensate more often than not, and deliberately hid this deception from the public.

PSC has presented this evidence to Health Canada, and is calling for the Minister of Health to commission an open, public and transparent review of this new evidence and to seek advice on appropriate future legal and regulatory actions. ♦

A copy of PSC's analysis can be found on our web-site (www.smoke-free.ca), or by calling us at 1-800-540-541



"In summary, adenocarcinoma is causally related to smoking with a strong suggestion that the use of filter cigarettes and deep inhalation increase the risk."

Birkett, N. *Temporal trends in adenocarcinoma at selected sites*. Prepared for Bureau of Cancer, Laboratory Centre for Disease Control, Health Canada, Ottawa, February, 1999.