

Illegal Cigarette Trade in Canada

The illegal cigarette trade has increased during the last few years, increasingly affecting the Canadian economy. The majority (94.9 per cent) of the illegal cigarette trade is concentrated in Quebec and Ontario, but the problem seems to be spreading to other provinces. The problem results in losses for the Canadian economy, not only for retailers, but also because unpaid taxes on the sale of tobacco deprive federal and provincial governments of important revenues, estimated at \$1.5 billion to \$2 billion in 2006.

It is not the first time that cigarette sales have escaped government control. In the past, Quebec fought against a thriving illegal cigarette trade. In the 90s, high tobacco taxes were associated with a huge increase in cigarette contraband, and during that period, the illegal trade reached alarming proportions. Quebec's Minister of Finance estimates that almost 65% of all cigarettes smoked in Quebec were sold illegally and that this clandestine economy cost the ministry nearly \$1.3 billion in lost tax revenues between 1990 and 1994. By agreeing together to reduce tobacco taxes, the governments of Canada and Quebec were able to stop the crisis. Paradoxically, despite the 80% reduction in tax rates, fiscal revenues from tobacco sales increased in Quebec after declining for several years due to the underground economy.

The illegal cigarette trade has been booming since 2000. According to the Canadian Tobacco Manufacturers Council, in Quebec and Ontario, almost 1 in 3 cigarettes is bought illegally and the illegal trade is growing. Data shows that the volume of illegally sold cigarettes is growing, and reached 31% in 2007 up from 22% in 2006 in Quebec. Although Quebec accounts for 41.1% of cigarettes illegally sold nationally, the problem is national in scope and 22% of cigarettes purchased in Canada are illegal. Currently, the price of one carton of illegal cigarettes (200 cigarettes) can be sold for as little as \$6, which is equivalent to 3 cents per cigarette. The problem is urgent.

It is in the best interest of Canadians to stop the illegal cigarette trade, because of its many negative consequences for the community in general. Tolerating the trade of illegal products, on which taxes are not paid, amounts to accepting the loss of legitimate fiscal revenues, estimated in Canada at more than \$1.5 billion in 2006. Moreover, owners of retail businesses, including very small neighbourhood retailers, see their sales fall dramatically and this cannot be explained by a lower rate of tobacco use in the population. According to the Canadian Convenience Stores Association, illegal cigarettes are lowering retailer revenues by 25%.

The illegal cigarette trade affects not only the economy, but also the health of Canadians. There is no quality control on products sold illegally. Health requirements, such as disclosing content, and the prohibition of tobacco sales to minors are not necessarily followed. Young people have access to cigarettes more easily and cheaply and risk becoming regular smokers. So, it is important to increase awareness among the young by working more closely with affected groups.

The illegal cigarette trade is a criminal issue because it breaks the law and gives organized crime additional revenues, allowing it to finance other illegal and damaging activities. Until now, government responses have not succeeded in stopping the perception that one can disobey the law and suffer very few consequences. It is obviously in the best interest of Canada and the provinces to justly and effectively control cigarette sales, as any other trade, to ensure compliance with the laws.

Recommendations

That federal and provincial/territorial governments take all necessary measures to end the illegal cigarette trade in Canada, including:

1. Implement adequate enforcement measures to ensure compliance with the laws in force relating to cigarette trade.
2. Increase collaboration between the various federal, provincial/territorial, and municipal law enforcement authorities in order to make law enforcement actions more efficient.

3. Develop a closer partnership with Aboriginal communities in order to end the illegal cigarette trade and encourage legitimate and viable economic development on reserves.
4. Develop a clear communications plan for the Canadians reaffirming the illegal nature and negative consequences of cigarette smuggling.
5. Providing a performance report on or before June 30, 2012 showing progress since the previous resolution was passed.