

Strengthening Canada's Tobacco Control Policy: A Blueprint for Action on a Fair and Accountable Tobacco Production Exit Strategy

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A non-profit farm organization working for the fair and equitable treatment of tobacco farmers being forced out of a legal profession and livelihood in Canada.

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TABLE OF CONTENTS

| | |
|--|----|
| ABOUT TOBACCO FARMERS IN CRISIS | 2 |
| THE PROBLEM | 2 |
| Background..... | 3 |
| Public Health and Social Implications..... | 4 |
| Economic Implications | 5 |
| Tobacco Adjustment Assistance Program | 5 |
| THE SOLUTION | 6 |
| A Blueprint for Action..... | 7 |
| Guiding Principles | 7 |
| Exit Strategy Goals | 8 |
| Exit Strategy Targets | 9 |
| Administration | 10 |
| Required Funding | 11 |
| Proposed Funding Sources..... | 11 |
| ANNEX A | |
| U.S. President’s Commission on Improving Economic Opportunity In Communities Dependent on Tobacco Production While Protecting Public Health: Tobacco at a Crossroad - A Call for Action. Final Report – May 14, 2001..... | 12 |
| ANNEX B | |
| Increased presence of foreign leaf tobacco in Canadian cigarettes and Increased presence of cheaper cigarettes in the Canadian market..... | 14 |

ABOUT TOBACCO FARMERS IN CRISIS

Tobacco Farmers in Crisis (TFIC) is a non-profit, federally registered organization working for the benefit of Canadian farm families being forced out of a legal profession and livelihood in Canada. The voluntary-membership based organization represents the vast majority of active tobacco producers in the country (1,084 quota holders who represent 700+ tobacco farm families), currently facing unnecessary and debilitating economic duress as a result of conflicting government policies on tobacco and tobacco control. The farm families in question will have, in some instances, invested more than five generations of significant professional commitment, personal sacrifice and financial investments.

TFIC recognizes the importance of tobacco control and of the role that government plays on this very public and controversial issue. TFIC's members are themselves mothers and fathers, aunts and uncles, sons and daughters, friends and colleagues. While our membership's professional investments may be linked to an increasingly controversial product and issue, our personal commitment is nonetheless directed to fair, comprehensive and accountable public policies on tobacco control.

TFIC's voluntary members are tobacco farm families in PEI, Quebec and Ontario and are also mandatory members of the Ontario Flue-Cured Tobacco Growers' Marketing Board (OFCTGMB). Unlike the OFCTGMB, however, TFIC's mandate focuses uniquely on the development and delivery of a fair and orderly exit strategy for tobacco growers in Canada as crop sizes decrease.

THE PROBLEM

Productive and lucrative government involvement/partnerships with Canadian tobacco farm families go back more than three-quarters of a century. If Canadian governments are now committed to eradicating tobacco production in our country, then fair compensation should be forthcoming to those who will have invested their livelihoods in this longstanding joint venture.

It is important to note that conflicting government policies on tobacco over the years have indirectly added an increasing and significant economic burden on the shoulders of those Canadian farm families who remain in domestic tobacco production – all the while undermining their ability to service the existing legal market in Canada. In a very real sense, the economic devastation faced by tobacco growers in Canada is not so much a result of declining tobacco consumption in our country but is more the result of government policies that indirectly but increasingly encourage tobacco contraband, the growth of micro-producers and the increasing use of foreign tobacco leaf in cigarettes sold in Canada.

It is redress for the perhaps unintended but real results of these policies that TFIC seeks for its members.

Background

- Canadian tobacco farmers have maintained a productive and responsible working relationship with Canadian governments for over 80 years.
- With the approval, encouragement and support of their governments, generations of Canadian farm families will have invested themselves heavily in what remains a legal industry in our country.
- The financial benefit to Canadian governments, solely with regard to tobacco tax revenues, is estimated at more than \$75 billion just over the last 15 years. With a still existing (although declining) domestic market of five million smokers – consuming approximately 40 billion cigarettes and 230 million cigars annually, Canadian governments can expect to easily collect \$100 billion more in tobacco tax revenues over the next 10 years.
- Over the last 10 years, Canadian governments will have invested well over \$500 million in tobacco control. Their investments in health protection, disease prevention, smoking cessation and *industry denormalization* activities are set to sustainably increase over the coming years. While Health Canada proactively brought its other departmental partners to the table in 2001 (e.g., Treasury Board’s joint submission regarding the Federal Tobacco Control Strategy, which resulted in \$480 million in funding over five years), Agriculture Canada’s involvement was completely neglected. As a result, the federal department that would be most impacted by Canada’s emerging agenda on tobacco control would find no opportunity to provide the necessary expertise to determine the ramifications to Canadian farmers, nor to secure the necessary government commitment to an accountable and comprehensive public policy process on the federal tobacco file.
- Canadian tobacco farmers have always worked honestly and with dignity in what was for a very long time publicly viewed as an honourable and respected endeavour.
- Over the last two decades, Canada’s emerging leadership in, and public agenda on, tobacco control has intentionally shifted public attitudes towards tobacco production in Canada.
- Over the past five years especially, conflicting government policies on tobacco and tobacco control have encouraged the Canadian tobacco farm family to invest more significantly in infrastructure (e.g., government-mandated kiln conversions in 2001) all the while undermining farmers’ ability to service the still existing domestic market.
- Another result of conflicting government policies has been the increasing and significant outsourcing of Canada’s still existing domestic tobacco market needs (i.e., currently, about 80 million pounds of tobacco leaf) to low-cost foreign countries over the past number of years (See Annex B).

Public Health and Social Implications

Current government policy (or lack thereof) on tobacco production to respond to emerging domestic trends, such as those described above, undermines the very spirit of the WHO Framework Convention on Tobacco Control, Canada's National Strategy to Reduce Tobacco Use, the Federal Tobacco Control Strategy and provincial tobacco control strategies across the country.

Allowing the outsourcing of Canada's market needs is tantamount to our country knowingly exporting its tobacco control problems to unsuspecting developing nations. Much broader potential public health and social ramifications of Canadian governments encouraging foreign leaf use in our domestic marketplace include:

- Encouraging (if not facilitating) developing nations to become more economically dependent on tobacco as a crop.
- Contributing to, if not facilitating, child/slave labour in other countries.
- Contributing to, if not facilitating, deforestation in developing countries as occurred earlier in Brazil as a result of the curing process for tobacco leaf.
- Allowing for a less regulated and potentially more harmful product to be developed and consumed in Canada (e.g. as a result of heavy metals in soil and pesticide issues).
- Allowing for a much cheaper cigarette product (value brands) to be developed and sold on our Canadian marketplace – thereby undermining government objectives with regard to tobacco access and uptake by youth.

In 2002, "value brand" cigarettes represented approximately 8% of our domestic market. By 2004, this had grown to 45% (See Annex B). In 2006, we estimate value brands represent over 45% of all cigarettes consumed in Canada. In terms of pricing, the retail selling price of premium brand cigarettes in Canada in 2006 (per pack of 20 cigarettes) is in the \$8.25 range, while value brand cigarettes are in the \$6.50 range (per pack of 20 cigarettes) or approximately 27% cheaper.

By allowing multi-national manufacturers to increasingly outsource our country's tobacco production needs to enable importation of a cheaper product, Canadian governments are undermining the very health objectives it has proudly championed worldwide over the last decade. This is one undeniable instance where Canada can protect the health of Canadians by helping its farmers. At the very least, re-securing control over our domestic tobacco production will mitigate our country's involvement in the tobacco control problems increasingly faced by developing nations. As a signatory state to the WHO Framework Convention on Tobacco Control, a founding member of the National Strategy to Reduce Tobacco Use, and a champion of harm reduction strategies underlined within the current Federal Tobacco Control Strategy, the federal government

has made its intentions quite clear and very public. Stricter tobacco production controls, achieved through continued working relationships with longstanding Canadian farm families, has now become a necessary element in Canada's public tobacco control agenda.

Economic Implications

Recent government initiatives (the April 2005 Tobacco Adjustment Assistance Program (TAAP) quota buy-out) designed to alleviate the economic crisis facing tobacco farmers, while well-intended, in the end have done little more than simply exacerbate the situation. Since TAAP's initial conception in 2004, new market challenges such as those described above have come to undermine both the structure and level of this type of exit "strategy." What has been offered to Canadian farm families was more than simply inadequate – it was unfair and unworkable. It is worth noting that the compensation offered by the federal and Ontario governments earlier this year represented *less than half of that offered to tobacco farm families in the U.S.* The TAAP program goals stated that "The Tobacco Adjustment Assistance Program will assist the repositioning of the Canadian tobacco growing industry by permanently retiring Basic Production Quota (BPQ) through a reverse auction process, to allow for an easier transition of BPQ holders out of the tobacco industry and improve the viability of those remaining." This program implied that government still wanted tobacco farming to continue in Canada.

Despite a still existing market, Canadian tobacco producers continue to find themselves unable to meet their debt obligations and are at great risk of losing their farms and their homes. At an average age of 58, average debt loads of more than \$400,000, the significant devaluation of tobacco farming assets, and little or no viable employment opportunity elsewhere, many Canadian tobacco producers find themselves unable to accept an exit strategy that would, in the end, see them lose everything they and their families have honestly invested in and worked for over four or five generations. In essence, Canadian farmers are trapped: their only option is to continue growing tobacco to try to recoup some of their most recent investment and to pay some of the bills – or leave with nothing.

The very real economic and social realities faced by longstanding Canadian tobacco farm families demand that careful and sincere consideration be given to developing a more comprehensive exit strategy – one focussed on actual debt loads, personal/professional investments, need for community support, need for infrastructure to support alternative employment, recovery of past and future economic loss, etc.).

Tobacco Adjustment Assistance Program (TAAP)

The federal TAAP program invested \$67 million dollars between Quebec and Ontario in retiring tobacco quotas. As a result of TAAP, Quebec tobacco producers no longer have a quota system and largely exited tobacco production. Ontario received 700 bids under the

reverse-auction program, with only about 252 being accepted due to the limited funding available. The provincial governments in Quebec and Ontario provided additional monies to producers who exited via the program. These funds were desperately needed by many farmers who were under the most severe financial distress at that time. In Ontario, a total of \$50 million dollars was spent: \$35 million for farmers and \$15 million for their communities. As demonstrated by the bids that could not be accommodated by the limited amount of funding, a clear need remains for a more comprehensive exit program.

THE SOLUTION

A win-win proposal for Canadian governments and Canadians would be achieved through the development of an orderly and accountable tobacco production exit strategy – one focused on a supply-side approach to tobacco control. Such an approach would further and productively add to the work undertaken over the last decade by Canadian governments and the health community.

It is important to remember that the health, social and economic implications of emerging trends in domestic tobacco production continue to threaten not only the agricultural community but our country's broader tobacco control agenda. There is a need, now more than ever, for Canada to step up to its commitment as an international leader in tobacco control – by recognizing and effectively responding to the broader public health and social ramifications of the flourishing market in contraband and increased use of foreign tobacco leaf in Canadian cigarettes.

The federal government must act now to ensure that the strictest control over both the quality and pricing of tobacco products sold and consumed in our country are secured. And this control can only be truly achieved at the domestic production level.

Further to this proposal, it is important to note that:

- Canadian producers have grown tobacco under a supply management system for more than half a century;
- The quota system of supply and demand would need to mirror actual trends (declines) in consumption levels for the domestic side of the 60/40 split of domestic and export tobaccos;
- Unlike the TAAP reverse auction, a more comprehensive and accountable process would be needed to allow Canadian farm families to fairly and effectively manage their exit from tobacco growing;
- For planning purposes, there would also need to be a defined and reasonable tax program for tobacco companies and Canadian tobacco growers.

A Blueprint for Action

Canada's history and experience with this very controversial and important public health file will have long ago taught us that the most effective tobacco control strategies demand a comprehensive and multi-faceted approach. TFIC's proposal builds on Canada's Federal Tobacco Control Strategy (i.e., its Harm Reduction and Prevention pillars) – to both identify and effectively respond to the emerging threats to our country's public health objectives.

Further inspired by the precedent set in the U.S., TFIC believes that Canadian governments, Canadian tobacco farmers and the Canadian health community must also strive to work together in a productive and comprehensive manner. As an example, the 2001 U.S. Presidential Commission on Tobacco came to the following conclusions:

- There is an inextricable linkage between protecting the family tobacco farmer and protecting health;
- Tobacco farmers and the general public should be protected against unfair and largely uncontrollable foreign markets;
- For those tobacco farmers who exit the industry, there should be comprehensive and equitable value assigned to their quota and investment in land, buildings and specialized machinery

The U.S. Presidential Commission on Tobacco would come to finally acknowledge that, odd as it may seem, *common ground does exist between tobacco growers, governments and the health community.* (See Annex A)

Guiding Principles

We suggest that participating governments, public health agencies, farmers' organizations and tobacco companies would base their discussions on an exit strategy on the following common principles:

- A plan entered into voluntarily and cooperatively by all stakeholders.
- A fair plan that treats Canadian farm families with dignity and respect, and provides for an orderly phase-out of tobacco with a minimum of economic dislocation and hardship.
- An accountable plan that directly supports public health objectives of matching domestic tobacco supply to domestic demand – allowing for the 60/40 traditional

domestic/export ratio until such a time as Canadian content rules or regulations can be effectively mandated.

- A Canadian plan, designed by Canadians for Canadians.
- A minimum 90% Canadian-grown leaf content of the cigarettes sold in Canada to stabilize prices and meet health objectives in harm reduction.
- Non-compliance by tobacco companies selling cigarettes in Canada would be subject to penalties.
- Non-compliance by tobacco growers who enter the exit program would be subject to penalties
- Tobacco would continue to be grown to supply the Canadian market under a supply management system that already exists.
- Canadian Governments, the national health community, farmers' organizations and tobacco companies must determine the future of the domestic tobacco industry from this point onward.
- The exit strategy would complement existing health and tobacco control policies by facilitating an orderly exit for growers as the domestic market declines.
- The OFCTGMB will continue to represent farmers in crop negotiations.
- The size of the tobacco crop in Ontario would be determined so as to supply existing (albeit declining) domestic and export markets.

Exit Strategy Goals

1. Bring to the table all of the necessary experts to this public policy file.
2. Secure truly accountable and workable public policies on tobacco, in support of Canada's longstanding public commitment to tobacco control.
3. Re-secure the strictest controls over quality, pricing and production of Canadian tobacco products.
4. Enhance current health protection standards in Canada, especially as it pertains to harm reduction and youth access/uptake objectives.
5. Re-stabilize the Canadian tobacco farm community, which has been unnecessarily devastated by dangerous trends in domestic tobacco production (e.g., outsourcing to meet domestic market needs).

Exit Strategy Targets

- The proposed exit strategy would look to responsibly mirror the decline in tobacco production in Canada with the actual decline in tobacco consumption. Such a program would seek to directly mitigate the above-mentioned dangerous production trends in the domestic marketplace.
- \$4.18 per pound of basic production quota would be CPI-indexed for following years as producers exit.
- A “present value lump sum payment” would be established at \$2.94 per pound of basic production quota and would be CPI-indexed.
- All growers exiting the industry under the recent reverse auction and equipment payment scheme financed by the federal and provincial governments would be eligible to receive an additional \$1.22 per pound, the difference between payments already received and \$2.94 per pound (depending on the calculation formula used).
- Sharegrowers would also receive payments (one-third of the rate of payment to quota owners).
- Quota holders and sharegrowers who accept a buyout payment would no longer be allowed to own quota or engage in sharegrowing, with one exception. The exception would be for persons who did some sharegrowing but also owned a small amount of quota – 250,000 pounds or less. The rationale for this exception is that these farmers are often near the beginning of their tobacco farming careers, and should be allowed to continue to grow tobacco for as long as the exit strategy market requirements will allow). Also, there may be cases where tobacco farmers have been gradually phasing out of tobacco growing, and allowances should be made to allow them to complete their wind-down over a few years.
- Crop insurance monies would be refunded accordingly.
- Supply-side management activities would materialize in the form of pre-2001 blending requirements or Canadian content requirements for domestic product.
- The Ontario Flue-Cured Tobacco Growers’ Marketing Board (OFCTGMB) would continue to represent tobacco growers in crop production negotiations and peripheral marketing issues.
- At least an additional \$150 million would be earmarked to support community, social and economic development in the remaining tobacco growing regions in Canada -- with at least \$100 million being made available in the first 10 years and the remainder thereafter. Local organizations could apply for these funds to use in:

- Job retraining programs for tobacco growers, sharegrowers, and tobacco farming and processing employees and contractors. Training would be provided for both agricultural and non-agricultural pursuits.
- Agricultural, economic/market research and development activities for other crops that are suited to the soil and climate of the tobacco belt.
- Economic/market research and development projects to create economic opportunities in food processing and other non-agricultural endeavours in the tobacco belt.
- Incentive programs for diversification projects.
- Tourism development in and near the tobacco belt.
- Social and community development in and near the tobacco belt.
- Managing zoning regulatory issues – allowing for development (for diversity reasons).

Administration

TFIC proposes the creation of a Tobacco Control Committee empowered to monitor and enforce the proper management of the proposed comprehensive tobacco control exit strategy. Such a committee would further monitor, analyze and report on emerging issues of relevance to tobacco production, domestic consumption, tobacco taxation, contraband and smuggling.

Participants to the committee would include:

- Government officials (i.e., key governments and departments)
- Health community representatives
- Tobacco growers representatives (TFIC)
- Ontario Flue-Cured Tobacco Growers' Marketing Board
- Domestic manufacturers (i.e., key companies)
- Non-industry, impartial appointments with relevant local knowledge and business expertise.

Required Funding

Total funding required for the development of a comprehensive and accountable tobacco production exit strategy would be approximately \$1.2 billion range – financed over 10

years. (Note this would approximate 1% of anticipated tobacco tax revenues over the same period.)

The proposed exit strategy would need to be sustainably financed through sound and dedicated revenue-generating mechanisms that would yield approximately \$100 million per year.

Suggested Funding Sources

Funding sources, or a combination thereof, could be derived from the following mechanisms:

1. Tap into tobacco control revenues – Federal Tobacco Control Strategy II 2006/07 – 2011 (bringing Agriculture to the tobacco control table as a partner).
2. Introduce a per carton federal tax increase on cigarettes, earmarked to fund exit strategy activities.
3. Recover more of the \$1.5 billion in taxes lost each year to contraband sales through improved enforcement of contraband laws. \$100 million per year over 10 years to fund the proposed exit strategy amounts to much less than one year's lost taxes.
4. Revise taxation system to levy tax earlier in the production process (e.g. all filters and cigarette tubes be taxed at the manufacturer level before delivery to cigarette companies), tax all raw to processed tobaccos at full tax rates allowing for rebates to holders of exemption status, establishing a level tax playing field for all (legal and illegal) cigarette manufacturers and capturing more taxes on end products.
5. Levy a tax on manufacturers to fund exit strategy for farmers as was done in the U.S.
6. Impose an additional surtax on cigarette companies' profits.

ANNEX A

U.S. President's Commission On Improving Economic Opportunity In Communities Dependent on Tobacco Production While Protecting Public Health

**Tobacco at a Crossroad - A Call for Action
Final Report – May 14, 2001**

REPORT HIGHLIGHTS

- Tobacco farmers and their communities are in the midst of an unprecedented economic crisis. At the same time, public concern over the health hazards of using tobacco products is at an all-time high. Resolving these two crises will require new, visionary tobacco policy in this country.
- Reducing tobacco use in the United States while simultaneously helping tobacco farmers may seem like a paradoxical challenge. But discussions between tobacco growers, tobacco growing community leaders and public health representatives have established that these groups share many common goals and support numerous policies that are consistent with these goals.
- Both short-term and long-term assistance are warranted for family tobacco farmers and their communities because of two factors:
 1. past federal (government) policies that have led many tobacco farmers to a heavy, if not total, dependence on this crop and way of life; and
 2. the dramatic reduction in purchase of U.S. tobacco leaf in recent years as the result of a complex set of trends that are both long term and global in nature.
- The preservation of a tobacco program that controls supply, maintains a minimum price, moves production permits into the hands of growers and incorporates health and safety protection is in the best interests of tobacco farmers and the public health.
- From a harm reduction standpoint, it is in the best interest of the public health community to support enhanced assurance of quota stability for domestic production of tobacco.

- Tobacco farmers should be fairly and equitably compensated for their quota to address this current crisis and reduce their dependency on tobacco, an action which is in the best interests of tobacco growers and the public health.
- The U.S. tobacco farmer and the public should be protected against unfair foreign competition. For example, increased and expanded inspections for non-approved pesticides on imported tobacco are in the best interest of tobacco growers, their communities and the public health.

BACKGROUND ON COMMISSION

- Work towards establishing a dialogue between tobacco growers and public health leaders began in 1985, as a result of U.S. President Jimmy Carter's efforts.
- By 1989, the report of a major national conference coordinated by public health advocates emphasized that efforts to reform the tobacco price support program must balance the concerns of the health community and the interests of the family tobacco farmer.
- By 1993, a national public health conference on tobacco recommended increased assistance to U.S. tobacco growers.
- By the mid-1990s, discussions among public health advocates and tobacco growers began in earnest.
- In 1998, the Southern Tobacco Communities Project, Concerned Friends for Tobacco, several tobacco grower organizations, the American Heart Association, the American Cancer Society, the campaign for Tobacco-Free Kids and others developed a set of 10 shared core principles.

The principles expressed a mutual commitment to:

1. reduce disease caused by tobacco products; and
2. ensure the future prosperity and stability of the American tobacco farmer and tobacco farming communities.

ANNEX B

Increased presence of foreign leaf tobacco in Canadian cigarettes

| Year | Domestic Leaf Production / Sale (millions of pounds) | Estimated Domestic Leaf Requirement (millions of pounds) | Estimated Use of Foreign Leaf in Canadian Cigarettes (millions of pounds) |
|--------------|--|--|---|
| 1999 | 90.3 | 96.3 | 6 |
| 2000 | 74.2 | 93 | 18.8 |
| 2001 | 73.4 | 90.6 | 17.2 |
| 2002 | 63.2 | 83 | 19.8 |
| 2003 | 55.4 | 79.1 | 23.7 |
| 2004 | 50.3 | 73.8 | 23.5 |
| 2005 | 48.7 | 69.3 | 20.6 |
| 2006* | 45 | 64.3 | 19.3 |
| 2007* | 38 | 60.4 | 22.4 |

* Low end domestic sales estimates.

Increased presence of cheaper cigarettes in the Canadian market

| Year (Q4) | Premium Brands (Canadian cigarette market share) | Value Brands (Canadian cigarette market share) |
|------------------|--|--|
| 2002 | 92% | 8% |
| 2003 | 77% | 23% |
| 2004 | 55% | 45% |
| 2005* | ?? | ?? |
| 2006* | ?? | ?? |

*No figures are available because of the increase in contraband.

