

Canada Data

LESSONS FROM CANADA'S BOOTLEGGING CRISIS

Some voices in Congress have suggested that high cigarette taxes are a "silver-bullet" that will lead to huge reductions in youth smoking rates; for anti-tobacco advocates it is an article of faith. However, proponents of large cigarette taxes turn a blind eye to smuggling and ignore the fact that smuggling undermines the goal that everyone wants to reach: a reduction in youth smoking.

Canada provides an excellent case study of the problems that can develop when cigarette taxes reach an excessively high level, and how those problems undermine the goal of reducing youth smoking. Throughout the 1980's, federal and provincial cigarette taxes increased steadily; by 1994 cigarette taxes reached nearly \$30 per carton in Ontario and Quebec. The lure of cheaper cigarettes in the United States led to a rash of smuggling so pervasive that it attracted the attention of the international press. In a December 1993 Wall Street Journal report, the Quebec government estimated that 50 percent of the cigarettes consumed in the province were smuggled into the province. The National Association of Convenience Stores testified at the time that, ". . . the underground or bootleg market for cigarettes in Canada had grown so large that it now outpaces, in terms of volume, the entire Canadian convenience store industry's sale of cigarettes." (Financing Provisions of the Administration's Health Security Act and Other Health Reform Proposals, House of Reps. Ways & Means Cmte., 103rd Congress, Nov. 19, 1993.)

Organized crime and theft were rampant, with record levels of robberies at stores that sell cigarettes. For example, Ron Martelle, the Mayor of Cornwall, Ontario, was under police protection after a series of death threats were attributed to his vocal opposition to smuggling, and the "Cornwall Civic Center was the target of a machine-gun attack, a warning from the smugglers. . . ." (CBS, America Tonight, July 6, 1994). A group of 75 store owners openly "defied Canadian law. . . by selling cigarettes at cut-rate prices to hordes of delighted customers." ("Cigarette Tax Protesters Flout Law," Montreal Gazette, January 25, 1994.) This action was in protest of the lost sales and lost jobs absorbed by these legitimate retailers.

This outrageous activity led Prime Minister Jean Chretien, in February, 1994 to roll-back federal cigarette taxes by \$5 per carton. Provinces were encouraged to follow suit. In Quebec, where law enforcement officials estimated that as many as 2 out of every 3 cigarettes consumed was smuggled, the tax dropped by \$21 per carton. (Cigarette Smuggling in the United States, Lindquist, Avey, Macdonald Baskerville, Inc., August 15, 1994) Announcing the reductions, Prime Minister Chretien said "Smuggling is threatening the safety of our communities and the livelihood of law-abiding merchants. . . . It is a threat to the very fabric of Canadian society." (Toronto Globe & Mail, February 9, 1994).

A Toronto Globe & Mail editorial noted in February 1994, "[o]rganized crime's smuggling roots are well developed, and as long as such a tremendous price difference remains, its sales will grow. The multi-billion-dollar gangster economy must be pulled up, root and branch, and **steep cuts in tobacco taxes -- nation-wide -- are the only way to do it.**"

The Implications of the Black Market on Youth Smoking

The transformation of the market from one where law-abiding retailers sell tobacco products, to one where distribution is controlled by organized crime, has obvious implications for efforts to

reduce youth tobacco use. Criminals, who by definition do not obey laws, are unlikely to ask for proof of age. Moreover, the black market sale of cigarettes can only serve to reinforce the notion that cigarettes are “taboo” and teenagers may see themselves as “rebels” by smoking them. As a Canadian high school student said in 1993, “Just as every school has a drug dealer, now every school has a cigarette dealer. . . [and buying from those dealers became a] cool thing.” (Cigarette Smuggling in the United States, Lindquist, Avey, Macdonald Baskerville, Inc., August 15, 1994)

Several Members of Congress, as well as anti-tobacco advocates, have looked to Canada as a model of tobacco control. At a Judiciary Committee hearing on May 12, 1994, Senator Durbin said: “[t]he prevalence of daily smoking among 15- to 19-year-olds fell from 40 percent at the beginning of the '80s to only 16 percent by 1991.” (Note: The minimum age for smoking in Canada is 19 years of age.) The suggestion is that Canada raised taxes, and youth smoking rates dropped.

Sen. Durbin ignores that daily smoking rates went back up to 20% by 1994, despite the fact that largest increases in Canadian cigarette taxes occurred between 1991 and 1994. If Canada’s experience was as successful as Sen. Durbin suggests, than why did **Canadian Health Minister, Diane Marleau**, arguing in favor of reducing tax rates say, “. . .it [tax cut] will end the smuggling trade and force children to rely on regular stores for their cigarettes -- where they will be forbidden to buy them until they turn 19. **In that way, consumption among teenagers can be more readily controlled and will likely drop.**” (Macleans, Feb. 21, 1994)

Taking Sen. Durbin’s argument to its logical conclusion, the Canadian tax cuts in 1994 should have fueled a rise in youth smoking. **They did not.** In 1994, the Canadian government’s Health Canada, spent over \$1 million on “The Survey on Smoking in Canada” to specifically “measure levels and changes in cigarette smoking behavior over the 1994-95 fiscal year, subsequent to the reduction in tobacco taxes early in 1994.” According to the report, “[o]verall, there has been no substantial change in the smoking behavior of Canadians. . .the prevalence for the 15-19 year old age group remained essentially unchanged throughout the four survey cycles, fluctuating between 29 and 26%. (“The Survey on Smoking in Canada,” conducted by Statistics Canada on behalf of Health Canada, Tobacco Demand Reduction Strategy, 1994-1995”) As Statistics Canada noted in 1995, “[A]fter 20 years of reduction in the prevalence of smoking (from 1970 to 1990), **the rate has since remained stable.**” (Statistics Canada, Report on the National Population Health Survey, Sep. 22, 1995)

This stability occurred during a time when tobacco taxes were skyrocketing, and supposedly youth rates should have been falling. As Megan Stephens, a Statistics Canada analyst recently noted, “. . . we saw the [youth rate] increases starting in 1991, which was three years prior to the tax cut on cigarettes” (“Early Smokers Find it Harder to Quit,” Toronto Star, April 30, 1998).

In fact, the drop Sen. Durbin sites is similar to our countries own experience over roughly the same time period. In ~~1997~~ 1997, daily smoking rates among Canadian youth aged 15-19 dropped from 42% in 1977 to about 20% in 1990, a 52% decline. (Canada’s National Clearinghouse on Tobacco and Health and Statistics Canada, as cited in the April 1998 GAO report, Tobacco: Issues Surrounding a National Tobacco Settlement.) Meanwhile, in the U.S., daily smoking prevalence among high school seniors fell from 28.8% in 1977, to 19.1% in 1990, a 30% decline,

without huge tax increases. (Monitoring the Future Study, University of Michigan, sponsored by research grants from the National Institute on Drug Abuse.) In fact, Sen. Durbin conveniently overlooks the fact that the bulk of the drop in daily smoking rates among Canadian's aged 15-19 occurred **before the massive tax hikes began in 1986**; by 1986, that rate had already dropped below 25% (See GAO cite, above). In other words, both drops were significant, and probably reflect the sea change in attitudes toward smoking that took place during those years. (Canada's high starting point may have had something to do with the inclusion of 19 year olds, who were legally able to smoke.)