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Budget 2019 Consultations: Responsible tobacco retail licensing

Brief submitted to the British Columbia Select Standing Committee on
Finance and Government Services

Submitted by the Canadian Cancer Society

Oral Testimony: October 11, 2018
Written Submission: October 15, 2018

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As a national, community-based organization, the Canadian Cancer Society has the most impact, against most cancers, in most communities across Canada. We are dedicated to fighting cancer on multiple fronts – through prevention, advocacy, research, and supporting those living with cancer.



Executive Summary

Tobacco exposure is the leading preventable cause of death in the province, and at \$2.3 billion dollars the health care costs for treating tobacco-related illnesses are a notable expense of the provincial budget. With a proactive government approach, the province has the opportunity to generate revenue to offset tobacco health care costs, curb smoking rates, and prevent future tobacco use.

Tobacco licences are an evidence-supported and widely-used tool by many governments in Canada and the United States to regulate tobacco retailing. But BC is missing an advantage of the system by not requiring a fee for their provincial government licensing service. Retailers in BC must obtain a Tobacco Retail Authorization permit (TRA) from the government, but without a permit fee, there is no financial responsibility for retailers distributing one of the most addictive and deadly consumer products.

Adding a fee to the existing Tobacco Retail Authorization permit process is an opportunity for the government to generate revenue and thus recover a minimum of \$2.1 million of government expenditures, while importantly helping address tobacco consumption. Tobacco retail licence fees would support the province's existing tobacco tax policy, the Ministry of Health goal to assist tobacco users to quit, as well as the province's budget in planning for financial pressures.

Recommendations

1. Implement a minimum dollar-per-day, \$365 annual fee for Tobacco Retail Authorization permits.
2. Increase tobacco taxes by \$13 per carton of 200 cigarettes to match the leading rate in Manitoba (\$68.19) and curb tobacco use. Tax rates on other tobacco products should be increased proportionately.

Responsible Tobacco Retail Licensing

Cigarettes kill one of every two long-term regular smokers and are sold twenty-four hours a day, seven days a week in convenience stores, gas stations, grocery markets, and unique to BC, pharmacies, as well as a host of other venues. While BC requires tobacco retail dealers to hold a permit to sell taxable tobacco, without a permit fee or strategy to address sales volume, the province is missing the opportunity to address tobacco access and ensure there is accountability for this deadly consumer product.

The current easy accessibility of tobacco products harms the province by:

- Adding to the belief that smoking is a social norm and products are easily obtained, which are associated with youth smoking initiation and progression from experimentation to regular use;
- Harming quitting success – ex-smokers living less than 500 metres from a tobacco retailer are less likely to maintain a continuous abstinence; and,
- Encouraging tobacco use – there are correlations between the greater retail availability and youth smoking, and between the distance to the nearest retailer and individual smoking.

A strong licensing system would benefit the province by:

- Increasing provincial revenue as part of a cost recovery for the harms caused by tobacco; and,
- Ensuring retail responsibility for an addictive and deadly consumer product.

Implementation

BC already has the core processes in place to implement a licence fee. BC requires a Tobacco Retail Authorization (TRA) permit for each location where taxable tobacco is sold. When applications are approved, retailers receive a registration number and their permit at no cost; the province could include a fee for their government service in this existing structure.

There is growing Canadian precedent for tobacco licensing fees. Two provinces and at least twenty-five municipalities require fees of varying amounts. Many have a higher initial licence cost with annual fees of lesser amounts. In Lloydminster, retailers are charged \$750 annually, plus an additional \$350 if flavoured tobacco is sold. This might be a structure BC considers given it is one of the few remaining provinces to allow flavoured tobacco sales.

In deciding on a fee structure, the province should consider that the amount covers administration costs, compliance and enforcement, training for vendors in updating the policy, and is high enough to incentivize vendors to comply with licensing conditions. At a minimum, if an annual fee was set at \$365 – just a dollar per day for tobacco retailers, the province stands to recover \$2.1 million annually (with approximately 6,000 tobacco retailers).

The addictive and deadly nature of tobacco products warrants special retail responsibility and accountability for sales. Without action, continuing to offer free, unlimited tobacco licences only encourages continued consumer tobacco use, and the government will have to look for other revenue sources to help offset health costs. Implementing responsible tobacco retail licensing first and foremost, serves the best health interests of British Columbians.

See Appendix One for a list of tobacco retail fees in Canada

Increase Tobacco Taxes

- Increase tobacco taxes by \$13 per carton of 200 cigarettes to match the leading rate in Manitoba and curb tobacco use. Tax rates on other tobacco products should be increased proportionately.

The Society applauds the provincial government for meaningfully increasing tobacco taxes in Budget 2018 and recognizes the Standing Committee on Finance and Government Services for their recommendation in last year's consultation report. We encourage the Committee to again consider tobacco taxes as part of Budget 2019, as they remain the single most effective strategy in reducing smoking rates.

The World Health Organization estimates that a 10% increase (after inflation) in the total retail price of tobacco products can result in a 4% reduction in consumption of tobacco. Numerous independent studies also demonstrate higher taxes can discourage youth who are particularly price sensitive. Teenagers are three times more sensitive to price increases than adults. This strategy of increasing tobacco taxes is cost-effective to implement and can generate significant additional revenue for the government to fund health programs and additional essential services.

- Even with BC's 2018 increase, we fall nearly \$13 behind the nation's leading tobacco tax rate (\$68.19 per 200 cigarettes).
- BC does not apply provincial sales tax to tobacco products, though provinces such as Saskatchewan and Manitoba do. As a result, BC must have a greater tobacco tax.

See Appendix Two for comparative tobacco tax rates



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Impact of cancer for British Columbians

With one in two Canadians expected to develop cancer in their lifetime, and the number of cancer cases expected to increase dramatically by 2030, the demand for treatment, programs, and support services will grow. In planning ahead for future financial pressures, the BC government will need to plan for providing services, and how to prevent incidence by reducing cancer risk factors wherever possible. In British Columbia, seventy people are diagnosed with cancer every day, and in 2018, lung cancer will be the leading cause of cancer death. For the health of British Columbians and financial stability in the province, it is crucial that the government adopts a holistic and coordinated policy approach, using financial tools such as responsible tobacco licensing and tax disincentives to encourage healthy behaviour and recover necessary health care costs.

About the Canadian Cancer Society

The Canadian Cancer Society is Canada's primary source for trusted cancer information and every year our services help millions of people access the treatment, care and support they need. In BC we represent all eight development regions with donors, volunteers, and community services across the province. We welcome the opportunity to present recommendations for Budget 2019 and prioritize cancer prevention policies and supportive services for those living with cancer and their caregivers.

Appendix One: Retail Licence Fees Across Canada

The following lists the annual licence fee per tobacco retailer for municipalities and provinces. Fees current as of October 1, 2018.

Provinces

- New Brunswick – initial fee is \$100 with an annual renewal of \$50
- Nova Scotia - \$124.60 for a 3-year permit (annual average of \$42)

Alberta Annual Fees

- Lloydminster, AB/SK \$1100 (if flavoured tobacco is sold)
- Lloydminster, AB/SK \$750 (if flavoured tobacco is not sold)
- St. Albert \$714
- Edmonton \$469
- Hinton \$160
- Calgary \$141

Ontario Annual Fees

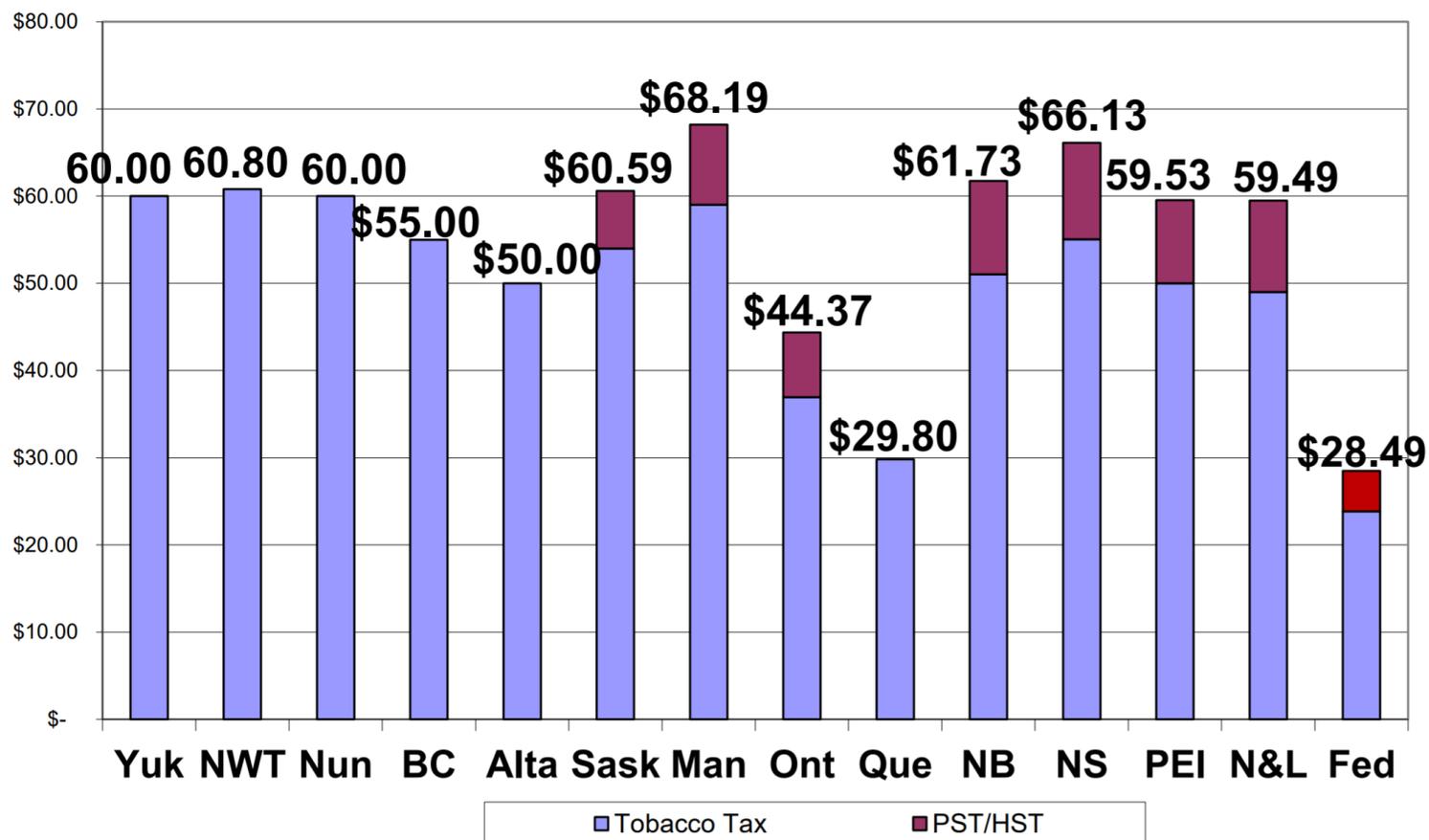
- Ottawa \$893
- Hamilton \$711 (\$780 if retailers sell both tobacco and e-cigarettes)
- Markham \$375
- Burlington \$185-\$330 (varies on type of sales)
- Toronto \$239.30-\$308.99 (varies on types of sales)
- Richmond Hill \$297
- London \$277
- Kingston \$267
- Brampton \$228
- Mississauga \$220
- Vaughan \$212
- Windsor \$191
- Oakville \$180
- Greater Sudbury \$150
- Wasaga Beach \$150
- Waterloo \$149
- Chatham-Kent \$145
- North Bay \$50
- Cornwall \$40

Note, some municipalities and provinces have a higher initial application fee, as compared with the subsequent ongoing annual fee. For example, Toronto's initial fee is \$632.87, with an annual fee of \$239.30 or \$308.99 (pending if food is sold at the store).

The following 11 provinces/territories have a requirement for tobacco retailers to have provincially/territorially required tobacco retailer licence/registration: BC, MB, ON, QC, NB, NS, PEI, NL, YT, NWT, NU. However, of these, only 2 require a licence fee: NB and NS. On March 19, 2015, the Quebec Taxation Review Committee recommended that Quebec implement a tobacco retailer licensing requirement with an annual fee of \$250.

Appendix Two: Tobacco Taxes Across Canada

Provincial/ Territorial Tobacco Tax Rates per Carton of 200 Cigarettes, September 1, 2018



Appendix Three: Committee Questions

Q: What is the Canadian Cancer Society's point of view on vaping? Our current perspective is that e-cigarettes are less harmful than conventional cigarettes, but e-cigarettes remain harmful. Studies on the long-term risks of e-cigarettes have not yet been done. E-cigarettes should not be used by youth, by non-smokers, or by ex-smokers who have quit altogether.

Health Canada has legalized the sale of e-cigarettes with nicotine so that e-cigarettes would be accessible as an option for smokers looking to quit. If e-cigarettes help smokers stay off cigarettes, individuals unable to quit completely would be better off from a health perspective to use e-cigarettes on a longer-term basis, if needed. Available research indicates that people should completely stop smoking to realize the comparative health benefits from using e-cigarettes. The best approach would be to quit altogether, with behavioural support or cessation aids or both, increasing the chance of success.

E-cigarettes and vaping products should not be promoted or made more affordable for youth through policy or tax decisions. A recent 2017 systematic review and meta-analysis in the US, as well as a 2017 Canadian longitudinal cohort study, found strong evidence of an association between initial e-cigarette use and subsequent cigarette smoking initiation.

- *JAMA Pediatr.* 2017;171(8):788-797. doi:10.1001/jamapediatrics.2017.1488
<https://jamanetwork.com/journals/jamapediatrics/article-abstract/2634377>
- *CMAJ* 2017 October 30;189:E1328-36. doi: 10.1503/cmaj.161002
<http://davidhammond.ca/wp-content/uploads/2018/03/2017-Ecigs-Youth-CMAJ.pdf>

Q: Have you been able to show statistically that increasing taxes on cigarettes clearly leads to a lower use of cigarettes? How do you balance taxes without pushing into the black market? Tobacco taxes that meaningfully increase product price are the single most effective tool in addressing tobacco consumption. As Article 6 of the World Health Organization's (WHO) Framework Convention on Tobacco Control, tobacco taxes are thoroughly researched for effectiveness and implementation. Evidence from the WHO supports that raising tobacco taxes to increase product price by 10% can result in a 4% reduction in tobacco use.

Contraband tobacco in BC will not increase as a result of increased tobacco taxes. The Ontario Tobacco Research Unit (OTRU) completed a comprehensive investigation of tobacco tax and contraband and found that high levels of illegal tobacco products are due to corruption, illegal evasion of import duty, and tolerance of contraband sales rather than increased tobacco taxes. The report's findings are further supported by the experience in Ontario and Quebec having the lowest taxation levels in the country, but the highest rates of contraband; contraband is not a result of tax. BC has very good controls related to tax-exempt products and First Nations reserves and reported RCMP seizures is evidence that any small amount of contraband is not leaking to the market. The most recent (2017) academic review of Contraband in Canada found there is no evidence to support the tobacco industry claim that contraband is increasing in recent years. Of note, the convenience store association in Quebec (funded by the tobacco industry) admitted in testimony that contraband in BC was effectively zero.

For more information on tobacco taxes, see:

- World Health Organization Technical Manual on Tobacco Tax Administration, https://www.who.int/tobacco/publications/economics/tax_administration/en/
- Zhang, Bo and Schwartz, Robert. *What Effect Does Tobacco Taxation Have on Contraband? Debunking the Taxation – Contraband Tobacco Myth.* Toronto, Ontario: Ontario Tobacco Research Unit. Published February, 2015. http://otru.org/wp-content/uploads/2015/02/special_tax_contraband_final.pdf
- Guindon GE, Burkhalter R, Brown KS. Levels and trends in cigarette contraband in Canada *Tobacco Control* 2017; 26:518-525.
- Gadbois, Michel. Association québécoise des dépanneurs en alimentation. Testimony before Committee on Health and Social Services, Quebec National Assembly, August 20, 2015.