

Cigarette smuggling finds a home in the West



David Square

In brief

FOUR YEARS AGO THE TOBACCO-SMUGGLING SITUATION was so bad that the federal government reduced its tobacco taxes. All provinces in the East save Newfoundland followed suit by lowering provincial taxes as well. The western provinces adamantly refused to do this. Today, cartons of cigarettes that sell for \$26 in Ontario cost roughly \$45 west of the Ontario border. The result, says David Square, is that tobacco smuggling is now a thriving industry in western Canada.

En bref

IL Y A QUATRE ANS, LES PROBLÈMES DE CONTREBANDE étaient devenus si graves que le gouvernement fédéral a réduit ses taxes sur le tabac. Toutes les provinces de l'Est, sauf Terre-Neuve, ont emboîté le pas et réduit aussi les taxes provinciales. Les provinces de l'Ouest ont refusé carrément de le faire, ce qui signifie qu'une cartouche de cigarettes qui se vend 26 \$ en Ontario coûte environ 45 \$ dans l'Ouest. La contrebande du tabac, affirme David Square, est maintenant une industrie florissante à l'ouest de la frontière Ontario-Manitoba.

"The Canadian [cigarette] manufacturers have benefited from this illegal trade. They have known perfectly well that their tobacco exports to the United States have been re-entering Canada illegally. I believe they have not acted responsibly."

— Jean Chrétien, quoted in *Smoke and Mirrors: The Canadian Tobacco War*, by Rob Cunningham

When the Ontario Provincial Police stopped a van on the Trans Canada Highway north of Sault Ste. Marie recently, the officers thought they were about to apprehend a cigarette smuggler. However, after they discovered that the 9600 packs of cigarettes in the vehicle had the province's excise seal they waved the van on its way. "I guess it's time to alert Peter and the boys," one officer said as he returned to his cruiser.

Two days later, Peter Murphy, the manager of special investigations for Manitoba's taxation department, was in his vehicle near the Ontario border. When a van fitting the description of the Ontario vehicle crossed into Manitoba it was pulled over by the RCMP, and Murphy and his tobacco-tax squad went into action. The "good bust" netted \$25 000 worth of cigarettes.

Peter Murphy has been a busy man since provincial tobacco taxes were lowered in Easter Canada on Feb. 4, 1994. Since then his department has seized 38 500 cartons of cigarettes and 1.5 million g of fine ("roll-your-own") tobacco. Almost 300 commercial smugglers — they must have been caught with 100 cartons or more to earn that designation — have been charged under the Tobacco Act since 1994, and 167 have appeared in court. Fines and penalties totalling \$300 000 have been levied.

"If Manitoba had reduced its tobacco tax in 1994," says Murphy, "the province would have lost \$290 million in revenue to date." He says physicians should be interested in that number because a large portion is used to support health care — one of many reasons the West was reluctant to follow the East's lead in lowering taxes. (Newfoundland was the only Eastern province that didn't follow suit.)

Features

Chroniques

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Almost 4 years after the tax decision was made, it's still causing problems. Murphy, an ex-RCMP officer with 25 years' experience, argues that smugglers and criminals "are birds of a feather." He says 40% of people prosecuted by his office between October 1995 and March 1997 had criminal records that included multiple arrests for drug, weapon, fraud and robbery charges. "The Winnipeg police recently seized a shipment of contraband that included \$40 000 in cigarettes, \$150 000 in marijuana and cocaine, and a handgun," he says.

But Dr. Mark Taylor says tobacco smuggling is not limited to illegal dealings by people hoping to make a quick buck. Taylor, a former military surgeon who heads Physicians for a Smoke-free Canada (PSC), says legitimate mail-order companies have been implicated in illegal tobacco sales in Ontario and Quebec, as have myriad fly-by-night operators.

"The mail-order companies hire people to place flyers on cars advertising tax-free cigarettes, they post notices on

the Internet, or they mail sample products directly to potential customers in Western Canada," says Taylor, one of the country's most aggressive antismoking campaigners.

Moving tobacco via the mail is one of PSC's greatest concerns, even though recent changes to the Tobacco Act (Bill C-71) have supposedly put an end to mail-order sales. He cited a Canadian tobacco company that sent a 16-year-old Vancouver nonsmoker a free carton of cigarettes.

"[The company] mailed an unknown quantity of free cartons . . . to people across the country in defiance of federal laws," Taylor alleges. He says PSC alerted Health Canada and helped provide it with evidence needed to prosecute under the Tobacco Products Control Act, but Health Canada refused to lay charges. "PSC may initiate private charges if the government continues its policy of nonenforcement," says Taylor.

He adds that federal departments are reluctant to challenge Canada's major cigarette companies because the Liberal Party has tobacco-industry ties that go back many years.

In his book *Smoke and Mirrors: The Canadian Tobacco War*, Rob Cunningham of the Canadian Cancer Society pointed out that "Louis St. Laurent, Liberal prime minister from 1948 to 1957, was chairman of the board of Rothmans during most of the 1960s." Other prominent Liberal cabinet ministers who have sat on the boards of tobacco companies include Maurice Sauvé, Alastair Gillespie, Robert Winters and the current finance minister, Paul Martin. "The cigarette companies have always worked very hard to cultivate political favour within the federal government," says Taylor.

Dr. Keith Martin, another outspoken critic, says Ottawa is afraid to tackle smuggling conduits between the US and Eastern Canada. "Tobacco, drugs, guns and illegal aliens are smuggled across the St. Lawrence River by a well-organized group of criminals with connections to the New York Mafia," says Martin, an emergency physician and Reform Party member of Parliament. "Part of the tragedy is that most people living on the First Nations reserves that straddle the Canada/US border are honest citizens who are themselves being terrorized by these thugs."

Martin says the federal government has instructed police to ignore smuggling activities in Ontario and Quebec because it is worried about provoking another Oka crisis. (In 1990 Canadian troops faced off with natives near Oka, Que. For their part, the RCMP are leery about enforcing the law because native smugglers are alleged to be extremely well armed.)

"If the government is serious about controlling illegal tobacco sales," says Martin, "then it must increase cigarette taxes to 1992 levels and collect the Export Tax, which in 1992 nearly eliminated cigarette smuggling."

He says Statistics Canada data revealed that cigarette

David Square photo



Peter Murphy with some of the 38 500 cartons of smuggled cigarettes confiscated in Manitoba. The suitcase he's holding is used to smuggle smokes on airlines.



sales rose by 41% within 6 months of the announcement of the cigarette-tax rollback. The price of a carton of cigarettes plummeted from about \$47 in 1994 to approximately \$26 (or less) in the 5 eastern provinces that lowered taxes. In Western Canada, a carton of legal cigarettes still costs from \$45 to 48, with contraband smokes selling for almost 50% less.

Taylor alleges that Canadian tobacco companies export huge quantities of cigarettes to the US, knowing that they will be smuggled back: "There is a limited market for Canadian tobacco products in the US and the companies are aware of this." Taylor says the federal government knows of the companies' involvement but has turned down PSC's request for an investigation.

In Saskatchewan, the RCMP seized \$35 million worth of contraband cigarettes in 1996, with most of the loot being found because of spot checks on the Trans Canada Highway. "The 1-ton cube van seems to be the vehicle of choice for smugglers," says Sgt. Higgins Elliot of the Regina detachment, "although we do find the odd semitrailer with a few thousand cartons buried in the load." He estimates that only 10% of illegal tobacco in Saskatchewan is confiscated.

Sgt. Stan Lintick of Saskatoon says his detachment is producing a video to explain how lost tobacco revenue hurts the Saskatchewan economy. "Taxes collected on the sale of legal cigarettes are used to fund hospitals and health care," he says. "The public should be made aware that smuggled tobacco products do not generate tax revenue for the province and that smuggling is responsible for a reduction in health care services."

In Alberta, Staff Sgt. Rick Samotej of the RCMP's Customs and Excise Unit says it has become socially acceptable to buy illegal smokes because "people just don't consider it a crime" and they are therefore sold under the counter at small stores throughout the province. "People seem to think it is their right to beat the government for a few tax dollars and this makes it almost impossible to stop the trade."

Most of the illegal cigarettes that enter Alberta arrive from Indian reservations in Ontario, Samotej says. The deliveries are made by large trucking or bus companies and airlines, which are unaware that they ship thousands of contraband cigarettes across Canada every day.

"We can't spot-check every bus or semi-trailer on the Trans Canada or every plane at the airport," says Samotej. "My guess is we're just scratching the surface of a multi-million dollar business that has ties to some very shady people."

In British Columbia, where tobacco taxes rank near the top in Canada, so many cartons of smuggled cigarettes were seized between 1994 and 1997 that police finally had to stash the overflow in dumpsters.

"We simply ran out space in our warehouse and rented refuse containers to store excess cigarettes until they could be burnt," says Sgt. Bruce Tiboni of the RCMP's Customs and Excise Unit. He estimates that 20% of cigarettes sold in BC are contraband and as a result the provincial government will lose up to \$125 million in tax revenue this fiscal year.

Tiboni says illegal smokes are smuggled into BC across interprovincial and international borders. His antismuggling unit recently broke up a gang that was shipping tobacco across

Canada after slipping it across the border at the Akwesasne Indian reservation that straddles the Ontario-New York border. Another point of entry for the gang's contraband was the US border near Blaine, Washington — 30 km south of Vancouver.

"Some of these characters gain entry from the US by driving 5-ton trucks loaded with smokes across farmers' strawberry fields," says Tiboni. At the same time, interprovincial smugglers board red-eye flights in Toronto with 8 to 10 large suitcases, each capable of holding 100 cartons of cigarettes. In Vancouver the suitcases are turned over to a contact and the courier returns to Toronto for a new load.

According to recent articles in Vancouver newspapers, an RCMP investigation implicated 2 major tobacco companies in some questionable activities. They allegedly paid more than \$300 000 to the Sonora Island Resort in British Columbia to cover fishing-derby entry fees for cigarette dealers with ties to BC smugglers. The newspapers said at least one sales representative from one of the companies met with leaders of the smuggling ring at the resort.

Inspector John Ferguson, head of the RCMP's Economic Crime Unit in BC, says cigarette smuggling is costing "millions and millions" in lost taxes. "At this point we're losing the war, even if we're winning some battles."

Mark Taylor says the tobacco war will not end until the big Canadian tobacco companies are challenged. "Until the Big Three are made accountable for dumping tobacco in northern US states and allowing the cigarettes to be smuggled back into Canada, it will be impossible to halt black-market sales of this lethal product.

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