



National Coalition Against Contraband Tobacco

2020 Ontario Pre-Budget Submission

Contraband Tobacco in Ontario

Nationally and internationally, especially in law enforcement circles, Ontario continues to be known as Canada's contraband tobacco epicentre. The latest research on the issue shows that one in three cigarettes sold in Ontario are illegal, with rates rising above 65% in Northern Ontario. The EY report, commissioned by the Government of Ontario in late 2018, found that the province loses approximately \$750 million annually to the illicit trade.

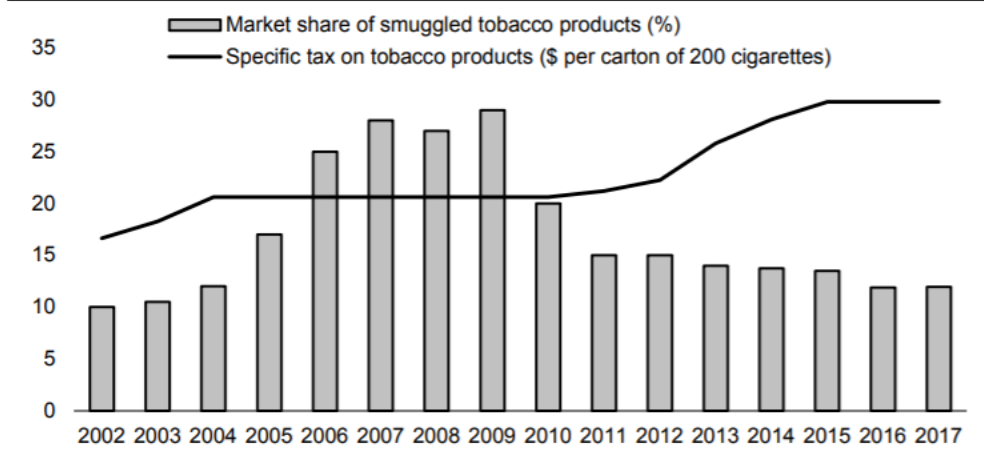
The Royal Canadian Mounted Police (RCMP) estimate that there are over 175 organized crime groups involved in the illegal tobacco market due to the low-risk, high-reward environment that currently exists in Ontario. These gangs use the proceeds from illegal tobacco to fund other illicit trades, such as the sale and distribution of drugs, like cocaine and heroin, opioids, guns and have also been linked to human trafficking. The inaction by the government over the past decades has allowed organized crime groups to continue to grow the illicit trade year after year. Little to no coordination at the provincial level, small penalties for being caught with contraband tobacco and the increased sophistication of organized crime groups have all allowed for an internationally renowned illegal market.

Other Provincial Measures

While the manufacturing of contraband tobacco predominantly takes place in Ontario, other provinces like Manitoba and Quebec have had similar issues. Prior to 2009, Quebec had the same contraband tobacco problem as Ontario, where one in three cigarettes sold were illegal. In response, Quebec took specific actions through Bill 59 which allowed their illegal tobacco rate to be cut by 50% in two years. In their last budget, the Quebec Government reported that for every one dollar they spend on law enforcement, they are making nearly eleven dollars back in increased revenue, totalling in over \$200 million returned to their public treasury. Law enforcement now considers this the "Quebec Model", by which other provinces should attempt to follow due to its effectiveness in combatting organized crime.

CHART B.1

Change in market share of smuggled tobacco products and in the rate of the specific tax on tobacco products
(per cent and dollars per carton of 200 cigarettes)



Sources: Statistics Canada, Sûreté du Québec and Ministère des Finances du Québec.

Activating Police Services

Current laws in Ontario do not allow local and regional police services and the Ontario Provincial Police (OPP) to conduct full contraband tobacco investigations. The law only allows Ministry of Finance officials and RCMP officers to conduct the full investigations. The case was the same in Quebec prior to 2009, however after the passing of Bill 59, the province allowed all police services to be engaged in addressing contraband tobacco.

This means that if a police officer from the Toronto Police Service were to stop a truck that possessed 200,000 illegal cigarettes, they would need to wait for either an RCMP officer, or more likely, a Ministry of Finance official, to come to the scene and take over the investigation. Police officers are unable to wait hours for a Ministry of Finance official, especially at a time when police services are under stress due to tightening budgets and fewer resources. Furthermore, contraband tobacco is not seen as a priority for the majority of services, who are busy investigating homicides or drugs. The unfortunate circumstance is that both gang violence and the distribution of drugs is all tied to illegal tobacco.

The Coalition recommends that the government amend legislation to allow all Ontario police services to conduct full contraband tobacco investigations; from stopping a vehicle, to bringing the case through the court system.

Increasing Province-Wide Coordination Efforts

Ontario's Contraband Tobacco Enforcement Team, which is a mix of Ministry of Finance officials along with OPP Constables, must be adequately staffed. While the Government of Ontario's 2018 Fall Economic Statement stated that the unit had been doubled, meaning we were to expect 18-members, latest reports show that the unit is only made up of 12-members.

Seeing that Ontario has the largest population in Canada, and the largest contraband tobacco issue when compared to other provinces, we are lagging behind. For example, Manitoba has a team of nine non-dedicated officials for a population smaller than Toronto's. Leading the way by far is Quebec with a

contraband tobacco enforcement team of 54 members dedicated solely to contraband tobacco. Seeing that Ontario has the worst contraband tobacco problem in Canada, with about one in three cigarettes being illegal, the enforcement measures should reflect that reality.

Furthermore, Ontario's team is currently not solely dedicated to contraband tobacco. Throughout the past few months, members of the team have been tasked with dealing with contraband cannabis since its legalization. This severely impacts Ontario's ability to deal with contraband tobacco as the number of members of the team dwindles from being re-assigned to other tasks for certain periods of time.

Quebec, realizing that contraband tobacco and cannabis were both issues that needed to be dealt with separately, decided to establish another team of 54 members dedicated solely to contraband cannabis. The two teams in Quebec allow the province to address the issue of contraband of both products separately, which allows them to keep rates down and tax revenue up.

The Coalition recommends that the government bolster the number of staff for the Contraband Tobacco Enforcement Team, as it relates to the population of Ontario and the scope of the issue, and that they mandate that the team be solely dedicated to contraband tobacco investigations and coordination.

Incentivizing Local and Regional Police Services

The number one thing that we have heard from police chiefs across Ontario is that while they know the issue of contraband tobacco exists in their backyards, they unfortunately do not have the resources to adequately enforce the law. This is why in 2009 Quebec created a grants program called *Accès Tabac*, which directly funds continuing investigations by local and regional police services into contraband tobacco. Through this program, all police services now contribute in contraband tobacco enforcement, reducing the rate from 33% in 2009 to 12% today. Quebec continues to fund this program as not only have they seen its effectiveness in combatting organized crime, but it has also accounted for an over 1000% return to their public treasury in increased revenue.

TABLE B.3

Total return on concerted actions funded by the Provision to increase any appropriation for initiatives concerning revenues of and fraud against the government
(millions of dollars, unless otherwise indicated)

	2017-2018
ACCES tobacco	207.6
ACCES construction	108.3
ACCES alcohol	83.4
ACCEF	21.7
Fight against organized networks of unreported work	14.5
Special Penal Case Division ⁽¹⁾	93.8
TOTAL	529.3
Funding granted to partners for concerted actions	48.6
RETURN PER DOLLAR INVESTED	10.88

(1) As of 2018-2019, the Special Penal Case Division is no longer funded by the provision, but rather by the appropriations granted to the Ministère de la Justice.

The Coalition recommends that Ontario adopt a similar program to the *Accès Tabac* program to fund ongoing contraband tobacco investigations performed by local and regional police services.

Conclusion

In the Government of Ontario's 2019 Fall Economic Statement was a section on Addressing Unregulated Tobacco which stated: "...the Ministry of Finance will consult public health stakeholders, industry and retail associations, as well as First Nation partners, on unregulated tobacco. This means working closely on common goals: protecting youth, promoting community safety, and creating opportunities for economic development and diversification."

We agree with the government's assessment, that by addressing illegal tobacco, the government will be able to protect youth from tobacco use, promote community safety by combatting gangs and create economic development by supporting legitimate businesses such as convenience stores. Since 2009, the "Quebec Model" has shown that it is an effective blueprint for combatting contraband tobacco and the organized crime groups involved while respecting the historical rights of indigenous people. By allowing all police services to partake in full contraband tobacco investigations, bolstering the Contraband Tobacco Enforcement Team who coordinate province-wide efforts and funding local and regional police services who partake in illegal tobacco enforcement, the province can expect effective results. Furthermore, by combatting illegal tobacco, it is proven that you also combat other illicit trades such as the sale and distribution of cocaine and heroin, opioids and guns.

While the Ontario Government has failed to take action over the past decades on this growing issue, it does not mean that we can't now. With the right set of policies, the government, alongside law enforcement, can ensure that Ontario is no longer known as the contraband capital of Canada. While the consultation laid out in the 2019 Fall Economic Statement is a good step towards hearing from effected groups, it must be a means to taking real action against illegal tobacco and gangs. We look forward to working with Members of Provincial Parliament, the Ministry of Finance and other departments involved to get the solutions right for the safety and well-being of all Ontarians.