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94 01 13 Page: 1 2540

CTV NETWORK 8:40 CANADA A.M.

SMUGGLING: TOBACCO MANUFACTURERS DEFEND THEIR POSITION

Host: Keith Morrison
Guest: Rob Parker, President of the Canadian Tobacco Manufacturers' Council

Keith Morrison: Are tobacco companies accomplices to the crime of smuggling? (...) Yesterday we spoke with a representative from an anti-tobacco coalition and he made some provocative accusations against Canadian tobacco companies. Suggested that manufacturers were dumping their products in the United States knowing full well that these cigarettes would return to Canada as illegal contraband in those boats that cross the river in the middle of the night with people toting guns. He also said the industry used veiled threats to end the government's short-lived tobacco export tax which was put on in response to the smuggling in order to end the smuggling. The tax was then lifted and the smuggling resumed. We're joined in Ottawa by Rob Parker, President of the Canadian Tobacco Manufacturers' Council. Good morning and thank you for coming in to respond to these allegations, which indeed are very serious where it comes to the tobacco companies. Are you able to say and persuade us that it's true that the tobacco companies are merely, you know, collateral damage in this whole sorry mess?

Rob Parker: The tobacco companies are suffering a very serious list of harms from the smuggling situation, Keith, and we want it stopped. You listed a number of the accusations that have been made by this anti-tobacco coalition. There are a large number of inaccuracies in the report. I'm not gonna try and go through them all, but let me make a couple of things clear right off the top. First of all, smuggling is a huge problem.

Morrison: Aha... yep.

Parker: On a national basis, it's maybe three cigarettes out of ten, 30% of the market is contraband. In Quebec it's over double that, between 60 and 70%. Secondly, manufacturers in Canada have been exporting increasing amounts to the United States and a significant portion of that comes back to Canada as contraband.

(inaudible: both speaking at once)

Morrison: ...something like 95% of it.

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94 01 13 Page: 2

CTV NETWORK 8:40 CANADA A.M.

Parker: Nowhere near 95%.

Morrison: How much then?

Parker: But a significant portion of it.

Morrison: All right.

Parker: Certainly over 80% of what is exported winds up in the contraband hands. Probably two-thirds or better of total contraband is originally made by Canadian manufacturers, but with respect, that's not causing the smuggled market. What's causing it is taxes, a huge tax imbalance between Canada and the United States, a policy originally proposed by the same groups that make up the coalition you interviewed yesterday.

Morrison: Yep... yep.

Parker: And pushed by them precisely for the purpose of a rapid rate of decline in smoking.

Morrison: Mmm.

Parker: What it's caused is a rapid rate of decline in legal purchases. It hasn't changed the gradual decline in smoking that's been with us for over thirty...

Morrison: Well now I know that the tobacco companies would love to be able to be a part of a non-smuggling operation. The tobacco companies are determined to obey the law like every other Canadian, so why don't the tobacco companies simply stop selling cigarettes into the... into that export market when they know they're gonna come back as contraband?

Parker: The answer's sitting right here beside me on this desk. I told you earlier that about 30% of contraband comes from non-Canadian sources. If the Canadian companies either voluntarily stop shipping to the U.S. or had an export tax imposed on them that made them stop, as was the case before, smugglers would turn to these sources for 100%. And you might want to take a look at it. These brands, this one, Potter's Light, which is a knock-off brand made by Indians...

Morrison: Right.

Parker: ...specifically for the smuggled market, showed up in southern Ontario eleven days after the export tax went on it in 1992. D.K.s is another one. It's a knock-off of DuMaurier King Size. Here's Rothmans, but that's not Canadian Rothmans.

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94 01 13 Page 3

CTV NETWORK 8:40 CANADA A.M.

Morrison: Right.

Parker: This one's made in the U.K. and was bought by smugglers.

Morrison: Okay.

Parker: Canadian Crown is not Canadian tobacco.

Morrison: I... I get your point and I understand what... what you're saying...

Parker: Well...

Morrison: The thing that I don't...

Parker: I think what people ought to understand, Keith, is this: if smoking declines, the whole industry understands that job losses are going to follow it. As the market declines, there're fewer jobs all the way from farmers right through to the retailer. Market declines equals job declines. Somebody apparently has gotten the idea that it might work the other way around: if we kill jobs in Canada then people are gonna stop smoking. It's nonsense.

Morrison: But wait a minute! If you're saying we... we feed the export market that comes back as illegal smuggled products we're somehow creating jobs in Canada so this is good, that the tax that's imposed by the government is politically unpopular, therefore we can smuggle cigarettes to make up for it! I mean, we have... we have a government here that is not going after smugglers in a way that will stop them, that is not going after tobacco companies in a way that will say, "Look here! You're doing something that is illegal, against every law that we have passed about this in the last few years with impunity". How do people get away with this? I don't understand it.

Parker: Smugglers get away with it because there is a four thousand mile border, there are hundreds of unmanned border crossings, police authorities have regularly said publicly and to authorities law enforcement alone will not stop this. We've been telling governments for two years that stronger law enforcement was helpful, but the only thing that would stop it permanently is a tax rollback, harmonized rollback by federal and provincial governments together, to take the profit out of it for the smugglers. It's the profit that's causing the smuggling...

Morrison: May... maybe the... maybe the tax...

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94 01 13 Page 4

CTV NETWORK 8:40 CANADA A.M.

Parker: ...and removing the profit will stop it.

Morrison: Perhaps the tax increase that's being debated in the United States and is expected any time will solve the problem. Do you think that will?

Parker: No, because first of all it won't come any time. It hasn't even been sent by the White House to the Hill. Once it gets there, the Chairman of the committee that's gonna examine it has already said it will take a year at least for his committee to debate it, and if they passed it today, the size of increase they're talking about is 7.50 a carton. It's not nearly enough to close a better than thirty dollar price gap between Canadian tobacco and U.S. tobacco. I mean the problem is simply one of how do you stop smuggling, how do you shut it down, how do you shut it down without another opening, for example?

Morrison: Well is not one way of stopping smuggling by taking the product, or at least the vast majority of the product, out of the smugglers' hands in the first place? I mean, you're selling stuff directly to people who're smuggling it back into the country, and you know you are, so why don't you stop?

Parker: Keith, just hang on a minute. You said our companies are selling directly to smugglers? If you have a single example of that, one instance of any one of the Canadian manufacturers selling directly to anybody who's involved in smuggling I think you should present the information to the authorities and make it public. Otherwise, I'll tell you that it's flatly not true.

Morrison: Well, that's...

Parker: Not once, not anywhere.

Morrison: Absolutely, and you can get as upset as you want about it, but you know damn well it's going to the smugglers one way or another. You...

Parker: Of course I do... of course I know it's getting into the hands of smugglers, three or four sales down the chain. The point I'm trying to make it that the manufacturers can't stop that. There is no way they can stop it. All of those sales in the U.S. are legal. The only illegal part of the chain is the final purchaser who brings it across the border, and if they can't buy the product from a Canadian manufacturer, they'll buy it in England or they'll buy it in Hong Kong or they'll buy it in South America and they'll smuggle that in. The

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94 01 13 Page 5

CTV NETWORK 8:40 CANADA A.M.

manufacturers could be good guys...

Morrison: Yeah.

Parker: ...and watch all of this... cut off
volun...voluntarily exports to the U.S., watch 30% of the
market or more go into foreign hands and not one single
thing would happen to stop smuggling.

Morrison: Okay, thank you. I... I enjoyed the
conversation.

Parker: So did I.

Morrison: Thank you for being with us this
morning.

Parker: Thank you.

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