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Chair

Mr. Garry Breitkreuz

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• (1530)

[English]

The Chair (Mr. Garry Breitkreuz (Yorkton—Melville, CPC)): I'd like to bring this meeting to order. This is meeting 29 of the Standing Committee on Public Safety and National Security. We are continuing our study of contraband tobacco.

I would like to welcome the witnesses we have before us today. We have, from Imperial Tobacco Canada Limited, Mr. Donald McCarty and Mr. Benjamin Kemball. We welcome you, gentlemen, and we will let you begin your testimony.

The usual practice is to have a ten-minute opening statement. We'll then give Mr. Jerry Montour, who is the chief executive officer from Grand River Enterprises, an opportunity to make a presentation. Steve Williams is not here, but Chantell Montour is here taking his place, I presume.

Sir, I will let you or Chantell do approximately a ten-minute presentation after we hear from Imperial Tobacco, if that's all right with all of you.

After that, we will open it up for questions and comments.

Without any further ado, which one of you gentlemen would like to begin?

Mr. Kemball, go ahead, sir.

Mr. Benjamin Kemball (President and Chief Executive Officer, Imperial Tobacco Canada Limited): Good afternoon, ladies and gentlemen.

First of all, thank you for this opportunity to address you on behalf of the Canadian Tobacco Manufacturers' Council.

Over the past three years we've drawn attention to the alarming growth of the illegal tobacco trade and its disastrous economic and social consequences. I'm heartened by the fact that this committee has called for hearings on such a serious matter. Given that we're discussing illegal activities, I've asked Don McCarty, vice president of the law division and general counsel of Imperial Tobacco Canada, to join me.

Before we get to the potential solutions, I'd like to give you an overview of this illegal market and its consequences. We've circulated a document to pre-read, as well as a CD, which provides detailed information from various different studies commissioned by Imperial Tobacco Canada, the Canadian Tobacco Manufacturers' Council, as well as others, such as the Canadian Convenience Store Association. I'd be happy to answer any questions you have on these

studies, or indeed on any other matter concerning this important subject.

In the interests of time, I'll limit my points to the key conclusions. First of all, illegal products represented 22% of the Canadian market in 2007—and over 30% in Ontario and Quebec. Those data were from the last major study conducted, and the findings and the methodology of this study have been widely reviewed and accepted. Even health groups, such as Physicians for a Smoke-Free Canada, recognize it as the most extensive survey available.

In volume terms, illegal products reached 10 billion cigarettes in 2007, and all the indications since then are that it has continued to grow rapidly. The illegal trade has now overtaken Rothmans, Benson & Hedges, and JTI-MacDonald to become the second largest supplier of tobacco products in Ontario and Quebec. It's well on course to becoming the leading supplier nationally—ahead even of Imperial Tobacco, which manufactures 14 billion cigarettes a year.

Now, of that 22% that the illegal products represent, 93% originate from first nations reserves. I have with me here some examples of such products. These products violate a wide range of laws and regulations, including the Excise Act, the Tobacco Act, and the Consumer Products Labelling Act, amongst others. The remainder of that 22% is attributable to cigarettes smuggled in from other countries, and only 1% is attributable to counterfeit—basically the illegal copies of recognized brands, typically smuggled in from countries such as China.

While this is still a sizeable proportion of cigarettes purchased from smoke shacks, the largest and fastest growing means of purchase of illegal cigarettes is through contacts, namely, the criminal networks who distribute illegal products outside the reserves. In many cases, these sales are taking place directly to consumers, and indeed directly to children.

Whereas legal tax-paid cigarettes cost between \$65 and \$85 a carton—according to the price category in the province—illegal cigarettes are sold at prices as low as \$6 for a bag of 200. In other words, they are sold at 3¢ a cigarette. An analysis of cigarette butts outside schoolyards in Ontario and Quebec suggests that the penetration of illegal cigarettes amongst children is running at 30%. In some municipalities it reaches as much as 50% in Ontario and even 70% in Quebec.

The illegal trade in tobacco products is widely seen as a low-risk and victimless crime that hurts only big tobacco and big government. It is true that the legal manufacturers lose several hundred millions of dollars per year in revenues. It's also true that other industry partners are suffering, whether they be wholesalers, retailers who lose an average of \$120,000 a year, or the tobacco growers in Ontario whose livelihoods are threatened. And governments in Canada—or more accurately the Canadian taxpayer—are being defrauded to the tune of \$1.6 billion every year. But as if that were not enough, it's the disastrous social consequences that demand urgent and effective action.

• (1535)

Canada justifiably prides itself on having the most highly regulated and one of the most highly taxed tobacco markets in the world. These regulations encompass the manufacturer, labelling, testing, marketing, and sale of tobacco products.

Given the inherently risky nature of our products, the major tobacco companies support reasonable regulation and indeed the use of taxation to discourage kids from smoking. We ask only that these laws and regulations be enforced uniformly and that they achieve their purpose. Sadly, neither is true today.

As you can see from the studies, children now have access to cigarettes at pocket-money prices, and criminals do not ask for proof of age. What is more, according to the RCMP and provincial police, many of the networks involved in illegal tobacco distribution also deal in alcohol, drugs, and firearms, with consequent risks to Canadian youth.

More broadly, all Canadians must be concerned that a culture be allowed to develop of casual law breaking.

So there you have it. From a highly regulated legal tobacco market to an illegal, unregulated, and untaxed market.... And we have yet to see the impact of the tobacco display bans, which come into effect in Ontario and Quebec at the end of this month and which will create fertile conditions for the illegal tobacco trade.

Before coming to the potential solutions, let me make clear that I am not calling for a tax rollback. While tax rollbacks have worked in the past, I understand the political pressures that one would bring. But the laws of Canada must be enforced uniformly and effectively or else governments will leave themselves no alternative other than chaos or a tax rollback.

I should also stress that there is no single solution, no silver bullet, to this problem. Any lasting solution will require a combination of measures that must involve and be supported by the first nations leadership. While I can't speak on behalf of the first nations, all the contacts and information we have had confirm that the first nations themselves are very concerned at the damaging effect of illegal tobacco trade on their own communities. Far from being beneficiaries, they have become the victims of crime from outside.

I'm pleased to see that certain first nations leaders have chosen to attend this hearing, and I hope their voices will be heard.

Effective measures to deal with illegal tobacco should include more effective enforcement of all relevant laws, not just taxation but also those covered by the Tobacco Act, amongst others. Proper

enforcement would not only drive up the costs and reduce the demand for illegal products, but it would also help tobacco control policies from unravelling.

The announcement last week of the RCMP's 2008 contraband tobacco enforcement strategy is a very positive development, but as Assistant Commissioner Raf Souccar stated last week, enforcement alone will not suffice.

The creation of a national task force is a much needed initiative to coordinate government strategies and actions for the diverse government bodies that can play a role in fighting illegal tobacco. This range includes the Canada Revenue Agency, the RCMP, the ministries of Public Safety, Finance, Indian and Northern Affairs, Agriculture, and Health. Such a task force should consult the different stakeholders, including the tobacco companies, for such information and recommendations as may be required.

• (1540)

There are areas beyond enforcement that can help to deal with the problem. For example, the supply of specific machinery and materials associated with tobacco manufacture should be properly monitored and controlled. To our knowledge, more than 20 tobacco manufacturing licences have been issued by the federal government over the past few years with very few, if any, inspections. The tobacco companies could also play their part by working with suppliers to the industry to ensure that they apply "know your customer" policies.

Finally, and perhaps most importantly, the introduction of a first nations tobacco tax comparable to the provincial tobacco tax should play a pivotal role. The proceeds could be used to fund the much-needed development programs for the first nations. This concept has proved effective with Seneca territories in the U.S. It's encouraging to hear that here in Canada several first nations leaders are advocating this as part of the solution. There are similar examples of very effective self-regulation in tobacco in first nations reserves such as the Cowichan Reserve in Duncan, British Columbia, where the provincial tobacco tax is enforced, collected, and retained by the first nations.

As you've seen, the situation is dire and has already spiralled out of control. I hope the political leadership—federal, provincial, and first nations—will seize this opportunity to put in place lasting solutions for the benefit of all Canadians. My company, together with the industry I represent, is committed to help wherever we can.

Thank you very much for your time.

The Chair: Thank you very much.

We'll now move over to Mr. Montour. Please go ahead with your presentation, sir.

Mr. Jerry Montour (Chief Executive Officer, Grand River Enterprises): I too would like to thank the committee for the opportunity. It's kind of overwhelming to me, as a first nations manufacturer, because I know there has never been a time in history when a first nations tobacco manufacturer has actually been allowed to have input into these kinds of hearings.

We've been licensed as a tobacco manufacturer in Canada since 1997. We've contributed around \$500 million in tax revenue, from which we've yet to see benefits come to first nations communities. This makes it all the harder for us as a company when we go out and try to lobby first nations governments as a whole to participate in levelling the playing field, which is drastically.... As my colleague pointed out, we're out there trying to sell a bag of tobacco products for somewhere in the vicinity of \$28 to \$35, and we have other people out there selling them at \$6 a carton.

You know, the idea of allowing first nations people the ability to place taxation on the products themselves is not new. I can remember, as early as the late eighties and early nineties, coming to former governments prior to this one and actually suggesting these same ideas. Basically, they didn't even have the time of day to listen to us. I remember sitting with someone as high up as the then-Minister of Finance, I think Mr. Anderson, and telling him that to really get our people to buy into these programs, they were going to have to see some of the benefits of this revenue helping first nations people.

With that in mind, I also have to say that the overall problem with the industry as a whole right now is the word "legal" recognition. Legal recognition is the hardest part of the industry as a whole.

Our company has chosen the avenue of taking on a tobacco manufacturer's licence. Up until eight years ago we were perceived as almost iconic heroes in our community. Under the guidelines of the federal government, paying all the applicable federal taxes, our company flourished. We also founded one of the very first charities among first nations, the Dreamcatcher Fund. We've contributed over \$10 million to that. The spinoff effects of our company alone have created over 1,000 jobs on first nations communities, all under the guidelines of paying the applicable federal taxes.

I see the chief of the Akwesasne reserve here. I can totally understand, from her perspective, how it must hurt to sit there and have her people demonized as criminals. It's almost a savage-like environment. As soon as they point out there's a problem with tobacco, they say, "It's got to be Akwesasne". And that's the core of the problem.

I've never once heard that we should find out who supplies the raw materials to this industry and bring them to task. I can guarantee you that CEOs of publicly traded companies don't like to be indicted, and people of first nations descent who are in desperate situations are easily capitalized on. But I don't know how you're going to be able to manufacture tobacco products if you can't source out the raw materials.

Let's talk about the health ramifications and other things. If you believe for a second that first nations people don't have their own youth to consider, you really have to....

Let me give you the mindset of our young people. Let me give you the mindset of being a young first nations person going to high school: leaving your community on a bus, getting to the end of your territory, seeing probably 40 or 50 OPP officers sitting outside the edge of your reserve because of unresolved land issues, and thinking you're going to change your life, you're going to get a job. So you go back to your community. But the only opportunities that present good employment on our first nations territories right now are tobacco-related.

In terms of the transition period, just like the tobacco farmer.... I'm very proud to say that at Grand River Enterprises, all of the tobacco content in our tobacco products—plus we happen to pay all applicable federal taxes—is 90% domestically grown.

Now, I don't want to sit up here and try to be like an advocate for tobacco and be attacked by all of the public health concerns and stuff. From a global perspective, we are recognized as the pioneers of making people aware of the ramifications of tobacco products. Our products display health warnings to put us on a level playing field with our competitors. But when you have things like this happen—your product is being blatantly counterfeited and sold right in your own communities—it's discouraging.

• (1545)

Whether you're pro tobacco or not, there is nothing to disclaim the things that we've been asked to put on these packs. There's no proof from an industry standard that we can say to you that smoking is not bad for your lungs or that it doesn't hurt you. So we don't have any medical evidence to back up anything different, and we have a responsibility to put those health warnings on those packs. Our company is a first nations manufacturer, and we took it upon ourselves to adhere to all those guidelines, only to be slapped in the face and have our product counterfeited and put right on those same packs.

In this public forum I would also warn all first nations communities that allowing the organized crime element to come into first nations territories is like allowing wolves in sheep's clothing into your communities.

There seems to be some confusion over who has the ability to tax the product, and we're all waiting. I met the former chief of Akwesasne, Chief Mitchell, when I walked into the room. When he and I were trying to pioneer these arguments, we were much younger men. There have never been changes brought about on the whole aspect of jurisdiction and who has the ability to tax these products. We still don't have it 20 years later. If we're going to base all of our actions on the fact that we're going to have to figure out who has jurisdiction over the territories first, I'm really concerned that absolutely nothing will get done.

As the CEO of this enterprise, I'm very concerned that our products are blatantly displayed in first nations territories. The RCMP reported there were something like 140 different organized criminal elements working along with first nations people as a whole in the tobacco industry. I speak only as an individual. I'm not a hereditary chief; I'm not currently elected as chief of a first nations territory. But I don't want, every time a committee talks about our people, to have them perceived as embracing organized crime and wanting those activities to take place on their reservations.

You're going to hear from another man who is chief of a reserve and also pays all the applicable federal taxes. I'm not here to argue the tax jurisdiction. I'm here to make you aware that you cannot make tobacco products without raw materials. It's only just recently, thank goodness, by the actions of the government that you've restricted tobacco machinery from getting into the hands of these operations. I applaud you for that. It was a great first move. Now take all of the other necessary steps to at least make sure that there's total transparency in the industry as a whole.

We can walk through who has jurisdiction over the taxation at a later date, but everybody knows what it's like to try to extract organized crime from a community once it embeds itself there. I'm very concerned.

Because we're first nations businessmen, in the first eight years we had the licence and were paying all the applicable federal taxes, as soon as we were able to recognize some benefits from this we reinvested our money in the first nations communities. You saw lacrosse arenas go up, the Ohsweken Speedway, gas stations, tech companies, and a lot of other spinoff and satellite companies that were owned by the directors or people who were working within the companies that were legally compliant.

I've watched that slowly diminish. I believe it's diminishing because a lot of the time these activities involve people who don't have first nations' agendas at heart. The money is leaving the country and going to other countries that participate in activities. I'm sure you have very good policing agencies; they can help you identify them.

It's very difficult to even speak in front of a committee when in the back of your mind you're thinking, "Don't sell out your own people. Make sure you give your people the opportunity to go after some of that revenue stream too. It's all that your people have as a revenue stream." By the same token, as a first nations businessman, am I not entitled to a level playing field? Am I not entitled to play under the same rules as everybody else?

You talk about provincial jurisdiction. I can speak only for myself; I don't have the privilege of speaking for every other tobacco manufacturer on the reservation. But I can tell you our company is the largest compliant tobacco manufacturer on a first nations territory, and we don't want to see our native-made products in retail stores off the reservation.

•(1550)

We've never been granted provincial permission to go into Ontario and sell tobacco products, which is an issue that will be before the courts one day. I don't want people taking products that are destined for first nations people and selling them in convenience stores. But do you know what? If you toughen up your laws, that won't happen.

I know in the United States of America, if you sell unstamped cigarettes for a second or third time, the punitive damages are unbelievable. They usually result in long-term incarceration. So you can't have a mellow environment and say, "Well, we're looking out for the rights of first nations people."

First nations retailers who are truly committed to building their own communities only have their products for sale on first nations territories. They don't choose to have their products sold into the mainstream.

I've already touched a little bit on what it's like for the younger people growing up. Aren't they entitled to be working in a manufacturing facility? As long as tobacco is legal and recognized, I think they're entitled to be there. Do you want them working in a facility where there are firearms at their feet because they have to fear the raids and they have to fear the aggression? Because they're desperate for those jobs, they allow themselves to work in those environments. Is that what you want for the youth?

One thing first nations people do is believe in family. If you watch, we're the fastest growing population in Canada today. You have to provide opportunities for our people as well. If you can help me with restricting the raw materials that go into these tobacco products and move toward legal recognition, you will truly make Canada a safer place.

Thank you very much for your time.

•(1555)

The Chair: Thank you very much. We appreciated the presentations from both of you.

Now the usual practice at this committee is to allow for some questions and comments. The first person on my list is Mr. Cullen.

Hon. Roy Cullen (Etobicoke North, Lib.): Thank you, Mr. Chair.

Thank you, Mr. McCarty and Mr. Kemball, Mr. Montour and Ms. Montour.

I don't know if you've seen that the RCMP has just come out with its contraband tobacco enforcement strategy. I don't know if you've had a chance to see it. One of the things it says is that the largest proportion of all contraband tobacco seized by the RCMP originates from illicit manufacturers on the U.S. side of Akwesasne territory.

Mr. Montour, you talked about how the United States takes some pretty serious action against companies or organizations that don't mark their tobacco. It doesn't seem to be that willing, as I understand it, to take action against contraband cigarettes being smuggled across into Canada.

How do we deal with that? Do we have better interdiction methods? The geography for some of it is that they can move right through first nations territory from the U.S. side to the Canadian side. How do we deal with a good number of these products coming from the U.S. side?

Mr. Jerry Montour: First of all, I don't necessarily agree with the statistics that all of it comes from that particular origin. Beyond that, I think the number one way to get the attention of the U.S. government is through the total lack of transparency. In other words, if there's an opportunity, especially after 9/11, for billions of dollars to be allowed through the monetary system unaccounted for, that's something they're interested in.

The manufacturers that may choose to send product through that avenue are saying the product is for export and therefore it does not concern the U.S. government. Maybe there's some merit to their argument.

But the fact that the financial traceability of those activities is not transparent is a very good way to approach that avenue, as far as I'm concerned.

Hon. Roy Cullen: We had the problem in Canada not too long ago of a huge volume of tobacco products going into the United States and of course coming back to the Canadian side. I think that's been technically dealt with, because the taxes are now put at the plant door.

Let me come back to this question you raised about the raw materials and equipment. The manufacturers now in Canada that are licensed and operating legally, and the ones that aren't, probably have the equipment to make those products.

At the meeting with the officials the other day I asked them about the paper and the filters. The officials seemed reluctant to pursue that. They said the filters come in big slabs and they can be used for a variety of different things. But it seems to me that you can control any new equipment coming in and you can control the papers and the filters, because I gather there's a very limited number of suppliers, and I think this is the point you alluded to. Is it feasible to do that?

Mr. Jerry Montour: Absolutely. I'm embarrassed to say that I did not hand this report to all of the honourable people at this meeting, because I didn't do it both in French and English. It was a lack of consideration on my part, coming to this meeting. I will have one in your hands before the week's out, in both languages.

The only reason I did not hand this out, giving you total insight to exactly what my points are on this, is that I had it in English only. I think it would have been a lack of respect for the people of Quebec and the people who choose to speak French in this meeting. That's why I didn't hand it out.

I do have that outlined, and I promise to have it to you before the end of the week.

Hon. Roy Cullen: Thank you. And that deals with that very question of how the federal government could control those raw material input items coming in?

Mr. Jerry Montour: I think Benjamin would be as committed as I am to really helping you identify...and the actual main source of the raw materials themselves, if there is an interest in that.

Hon. Roy Cullen: Before we do that, I have a question for Mr. Kemball. Maybe you can expand on that.

When we had the Finance Canada officials here, they seemed reluctant to indicate the magnitude of the contraband tobacco. I think

you put a number on it in terms of taxes—\$1.6 billion per year. I'm sure the Department of Finance has that number as well.

Now, you talked about putting on a first nations tobacco tax as a possibility. They've done that in the United States. But if you have on these first nations reserves organized crime involved, as Mr. Montour has indicated, as well as the RCMP, surely it's not just a question of the jurisdiction of whether there's a tax or where it goes to. When you have organized crime, they're looking at the spread between not paying taxes and the margin they can use to make a lot of money.

First of all, there's some jurisdiction on the legal questions, the constitutional questions around allowing first nations to take control of that tax, but is that going to really deal with the problem? If organized crime is involved, they just want the spread, don't they?

• (1600)

Mr. Benjamin Kemball: Yes, that's true. The manufacturer of cigarettes on the Canadian side of the reserves, or any reserves within Canada, should carry a federal excise. Federal excise should be applied to that.

Clearly that is not happening when you talk about \$6. The federal tax alone, to say nothing of the provincial tobacco tax and so on, which would apply outside the reserve, is way in excess of \$6. So there is an issue of enforcement of the laws with the Excise Act. But our understanding is that any manufacturing operation, provided it complies with the federal regulations and laws within the reserves on the Canadian side, should do so; however, the criminal activity is when those cigarettes are sold to non-status Indians or taken off the reserves for resale to others. That's where criminality gets involved.

I think the RCMP can speak better about the nature of the criminal networks that are operating off the reserves, but that is where the key illegality happens. There are other laws that should be respected concerning the manufacture: for example, health warnings, the use of low-ignition propensity cigarette paper, which is also covered under Canadian laws and regulations. All of those should be respected. But I totally agree with you, there is a need. If there is to be any additional tax over and above the federal excise, there does need to be agreement on the enforcement of both the federal excise as well as the first nations tax.

I can't see who would lose out from the introduction of a measure such as this. You'd be reducing the amount of illegal trade, you'd be reducing the revenue losses for federal and provincial governments, and on top of that, you'd be generating useful funds for the much-needed development programs on the first nations reserves.

Hon. Roy Cullen: I will just pursue that a bit. You're saying that the organized crime occurs mostly when the cigarettes leave the reserves, but if you have people running drugs, firearms, illegal immigrants, contraband tobacco, from the U.S. side or within the Canadian side, organized criminals are involved in that, are they not? They're not going to just say, "Well, we have a new tax. The whole tax regime has been sorted out. First nations will get a bit more. The governments have worked all this out. We can finish all this and go home." They're not going to do that, are they?

Mr. Benjamin Kemball: No, they're not, not given that they're violating so many laws today. But this is the point I was trying to make in terms of the political commitment that is needed. If we are going to have a first nations tobacco tax applied, which will solve many problems, then it requires political leadership, both within the first nations, the federal government, and also the provincial governments, to make sure there is a commitment to making this happen.

The Chair: Your time is actually up. We'll come back to you.

Now we'll go over to the Bloc Québécois.

Monsieur Ménard, do you have a question or comment?

[Translation]

Mr. Serge Ménard (Marc-Aurèle-Fortin, BQ): Thank you, Mr. Chairman.

Mr. Montour...

[English]

Mr. Jerry Montour: I'm embarrassed to say, sir, that I don't speak French.

The Chair: No, that's fine.

Do you all have your little ear pieces in for translation?

•(1605)

[Translation]

Mr. Serge Ménard: I know how difficult it is to learn another language.

As I understand it, you disagree with the RCMP and the tobacco companies about the volume of illegal cigarettes sold in Canada that originate from first nations reserves.

[English]

Mr. Jerry Montour: I'm sorry. Maybe I misstated that. I would just say that I can't agree with it. I don't have as much access to the studies as they do, but it certainly is a problem.

[Translation]

Mr. Serge Ménard: Yes, but I understood that in the report that you will be presenting to us, you conduct your own study of the volume of illegal cigarettes originating from first nations reserves.

[English]

Mr. Jerry Montour: Yes, I do.

[Translation]

Mr. Serge Ménard: You are going to do your own study. Correct?

[English]

Mr. Jerry Montour: Yes.

[Translation]

Mr. Serge Ménard: And in your opinion, what does this represent in percentage terms?

[English]

Mr. Jerry Montour: I would have to say that it directly affects our business, being that we are a compliant tobacco manufacturer on reservations. Right now, our business is down almost 56%. I don't

have access to the off-reserve study, but as for the actual people who are trying to remain compliant on the reservation, our business is down as much as 56%. Therefore, it seems to have a lot more ramifications for us operating under these standards than it does for other manufacturers.

[Translation]

Mr. Serge Ménard: I will read your report and we'll see.

It's unfortunate, but when we're presented with figures like this, we have no idea of how the evaluation was done. That is why I am going to ask you, when you give us a figure, to explain to us how you obtained your results.

[English]

Mr. Jerry Montour: Yes, sir.

[Translation]

Mr. Serge Ménard: I would now like to move on to another subject.

I believe an agreement was reached in the mid 1990s with certain first nations to have aboriginals pay the sales tax on cigarettes. However the resulting tax revenues would be turned over to the bands.

Are you familiar with that arrangement?

[English]

Mr. Jerry Montour: No, I can't speak to that, because we do not manufacturer in the province of Quebec. So I'm not totally aware of the guidelines in that arrangement.

[Translation]

Mr. Serge Ménard: Do you think it's a good idea to have natives pay the sales tax and then to have the reserve refund the tax to them once they have established that they purchased the cigarettes for their personal consumption?

[English]

Mr. Jerry Montour: I didn't want to interrupt when my fellow colleague here was speaking, but I just want to let you know that from our company's perspective, we have been paying applicable federal taxes—which concerns everybody in this room—to the tune of almost \$500 million, and we haven't seen any direct benefit whatsoever from that \$500 million from a first nation's perspective.

So vis-à-vis any agreement that takes place, first of all, I don't have the ability to negotiate one because I'm not a chief, but I do think there has to be a strong commitment that if an agreement is to be made, it truly benefit first nations people, because you don't want them to just admit to being tax collectors, with everything else a downside.

•(1610)

[Translation]

Mr. Serge Ménard: We don't have a lot of time, so I'll move on to another topic.

Mr. Kemball, how long have you been working for Imperial Tobacco?

Mr. Benjamin Kemball: I've been working for the company since 2005, or for three years.

Mr. Serge Ménard: So then, you were not associated with Imperial Tobacco Canada during the 1990s.

Mr. Benjamin Kemball: No, I was working at various locations around the world.

Mr. Serge Ménard: Now that you are very familiar with Imperial Tobacco, can you explain to us how the company agreed to increase substantially its US sales of cigarettes destined for the Canadian market?

[English]

Mr. Benjamin Kemball: I can't really comment on that. I've worked for the British American Tobacco group for over 25 years, but I've only worked for the last three years in Canada. I do know that for many years our company has worked in close collaboration with federal and provincial enforcement agencies, including the RCMP, on the whole issue of contraband.

[Translation]

Mr. Serge Ménard: Sales by Canadian companies like yours of cigarettes destined for the Canadian market have increased substantially in the United States. Are you aware that the only possible explanation given was that these cigarettes were being brought back to Canada?

Mr. Donald McCarty (Vice-President, Law Division and General Counsel, Imperial Tobacco Canada Limited): May I say something?

Mr. Serge Ménard: If you can answer my question, then by all means.

Mr. Donald McCarty: Like Mr. Kemball, I too was not with Imperial Tobacco during that period of time. I began working for the company in 1998. Regardless, the period you alluded to has nothing to do with the current situation. As you know, we have been cooperating with the RCMP and its investigation into this matter for the past 10 years. I would imagine that the RCMP will wrap up its investigation one of these days. To compare that situation with the one we have today is like comparing apples and oranges. We're talking about two very different situations. Neither Mr. Kemball or myself is a position to comment on the strategy employed back then.

Mr. Serge Ménard: By understanding what happened in the past, we can prevent similar things from happening in the future. That is what I'm trying to get you to acknowledge, but if you refuse to see that representatives of major companies are refusing to admit that their products are being sold illegally and are doing nothing to stop this trade...You may think that I'm only interested in sanctions, but that is not so. I'm concerned about preventing this from happening in the future. I have always believed that a huge company like Imperial Tobacco would never encourage illegal trade on such a scale.

Mr. Donald McCarty: We are not in any way encouraging illegal trade at this time. If you ask the RCMP, the Canada Revenue Agency and other provincial agencies responsible for controlling tobacco sales how Imperial Tobacco is dealing with this problem, they will tell you that we are working with them to fight the illegal tobacco trade in this country.

[English]

The Chair: Thank you. I gave you a couple of extra minutes because of microphone difficulties.

We're going to go over to Ms. Priddy now from the NDP.

Ms. Penny Priddy (Surrey North, NDP): Thank you, Mr. Chair.

I have a two-part question for Mr. Kemball and a question for Mr. Montour.

In working with the Ontario Flue-Cured Tobacco Growers' Marketing Board and using that as some kind of firewall or way to control the supply management of tobacco leaf—and we see it getting worse, by the way—I'm wondering if you could comment on whether you will be continuing to work with them around what we now see as a very uncontrolled sale of American tobacco to unlicensed factories on the American side of the border, and what your continued work with that organization would be.

I have a second question, which comes from that. Since many of your sister or brother companies in British American Tobacco have long been purchasing substantial amounts of leaf tobacco from America, from the United States, if you will, from farmers in North Carolina and farmers in adjoining states, will you and your company—and I just want to get this on the record—help American and Canadian authorities to cut off that supply, if you will, of contraband tobacco at its source? And will you undertake to lend your corporate knowledge and experience, of which you have significant amounts, to those authorities in a joint effort to stop the flow of tobacco leaf and loose tobacco from the American south to unlicensed tobacco companies here in Canada?

• (1615)

Mr. Benjamin Kemball: I could take the second question first, and that concerns the international cooperation. My company—and I'm sure I can speak for the other members of the CTMC—is fully committed to cooperating, to dealing with the problem of illicit trade. That's why we're here today. We've been bringing information. We've been carrying out studies at considerable cost, to get some clarity on the problems. As I said in the introductory remarks, we're also committed to helping bring solutions to this, including some solutions that might help to contribute, along with other nations, to dealing with the problem.

Concerning the supply of tobacco to the illegal manufacturers, this is not something that is easily applied. Tobacco is grown all around the world. There is a world market for tobacco products. There are dealers in raw tobacco and in leaf tobacco, and they're beyond the control directly of the tobacco manufacturers such as us.

Having said that, whether it's for materials or tobacco leaves, as best we can, we insist that those suppliers we buy from enforce their own "know your customer" policies, so that those we can influence don't supply illegal trade.

Ms. Penny Priddy: I realize some comes from China. We have tobacco-growing countries across the world, and I understand that. But within the purview of what you can do, will you do anything you can to be a partner in preventing this from happening?

Mr. Benjamin Kemball: Absolutely. That is what we're committed to doing.

Ms. Penny Priddy: Mr. Montour, I wonder if I might ask you a question.

You said earlier—and I take your point, and I agree with you—that you have warning labels on packages as companies do, and you're not here to say whether it's good or it's bad, or whether tobacco is good for us, not good for us, or whatever. Nor am I, by the way. I would like everybody not to smoke, but that's not my job here on this committee; my job is to look at what provides a fair and legal playing field for people.

So we take these producing machines, which don't have licences. They're not licensed, so clearly they're now illegal. If we could remove that from the argument for a minute, how much of the rest of the product—the filters, papers, etc.—would taking the machines away take care of? Would we still have a fairly large chunk to deal with, as it relates to the things that go into the cigarette other than the tobacco?

Mr. Jerry Montour: First of all, let me give you a little bit of a strategy on your first question, because I would like to give a little bit of input on it too.

I think there's another strong strategy that the industry as a whole could help out with. If you really want to stop the amount of raw material that gets out from a tobacco perspective, the large tobacco companies, including ourselves, could commit to buying more of the domestically grown tobacco, as opposed to getting it from cheaper alternative sources. If we all purchased domestically grown tobacco and allowed them to have a long-term phase-out program, even if it meant additional amounts of money on each carton, it would help the Canadian tobacco farmer. My personal belief is that that's where about 80% of the actual tobacco is coming from in this contraband activity anyway. You can't have people growing 70 million pounds and all of a sudden just abandon them because tobacco is cheaper in Brazil or someplace else. We have a responsibility to help them in their phase-out program, as Canadian tobacco manufacturers, if we truly are interested in tackling the problem.

Second, there is no possible way in the world that anybody can tell you that.... I've got it outlined here, but I'll just show everybody a picture, just to show you. You can see that cigarette paper is clearly defined for one use. Tipping paper, the brown cork stuff on the edge of the cigarette, is clearly defined for one use. Acetate tow, to the best of my knowledge, is only.... If it is for alternative uses, then identify what those uses are and restrict it.

I still stand firmly in the position I had when I walked into this meeting, which is that if you control the raw materials, you'll control the activities, because anyone who is doing it in a legal form is not afraid of transparency.

•(1620)

Ms. Penny Priddy: Thank you.

Mr. Kemball—it's not a question, and I thank you, Mr. Chair, for the time—I think you mentioned the Duncan tax treaty that was in existence. I think we mentioned last week that there are 19 actual tax treaties working, and working fairly well—albeit on the west coast, where perhaps we have less of a problem. They are working quite successfully and doing in some ways what Mr. Montour talked about, which is paying the tax and then having the tax go back into community development and into areas that are making a difference in the lives of first nations people, which is logical.

Thank you.

The Chair: We'll have to wind it up here.

Did anybody have a brief comment? Our time is up, but go ahead.

Mr. Benjamin Kemball: In answer to the first question, which was concerning tobacco, by far most of the tobacco we use is Canadian tobacco. We are committed also to working with the farmers to help find solutions to the problems they face.

Much of the problem they face occurs because 8% of the market, the largest markets of Ontario and Quebec, is shifting every year to the illegal market. Tobacco consumption in total is declining, along with the rest of Canada, at about 2% to 3% per annum—that has been going on for decades now—but in Ontario and Quebec we've seen declines of as much as 11% every year. The difference is that consumers are switching, and 8% of the market is shifting every year into the illegal trade.

Ms. Penny Priddy: Is that in your presentation?

Mr. Benjamin Kemball: Yes, it is.

The Chair: Thank you.

We're going to go over to the government side in a minute.

Mr. Montour, you can actually give that report to me today, if you wish, and I can have it translated. You've referred to it a couple of times, and I think you're showing it to us there. It's not a problem. You can give us that report, and it'll save you the translation—

Mr. Jerry Montour: I'll do it, Chair, but with the greatest apologies to the Bloc for not respecting their....

The Chair: Thank you.

Let's continue. We'll now go over to the government side.

Go ahead, Mr. MacKenzie, please.

Mr. Dave MacKenzie (Oxford, CPC): Thank you, Chair. Thank you to the panel for being here today.

This is an extremely important issue, and I think some in the past have looked at it as being a small issue. The very first statement I'd like to make is that I do not see the aboriginal community as being the big villains in this whole picture. What we're hearing now is that they've been used by organized crime, perhaps. The Americans are saying terrorist organizations are using it to fund terrorist activity; I don't think we have that evidence, but the Americans are saying that. Part of this whole picture has obviously been the enabling of some of this stuff to go on, and not for one minute would I want the first nations people to think this focuses purely on the first nations.

Mr. Montour, I think as a first nations manufacturer you have already hit on part of this issue, which is that not very much of the ingredients in cigarettes.... In that baggie that went around, how much of the ingredients would come from a first nations community?

•(1625)

Mr. Jerry Montour: Zero. We don't make acetate tow, we don't make tipping paper, we don't make cigarette paper. I'm not sure of the marginal amounts of tobacco that is grown in our communities—and that has been an inherent right, and I don't think there is a charter argument in the world that will win against that one because we've employed it in ceremonial use for years—but it would represent minuscule amounts compared with what we're here to deal with today.

The raw materials that are needed in order to flourish in this industry, which plagues us all, come from off the reservation.

Mr. Dave MacKenzie: How does it come in, then, to the first nations people who are in the business of manufacturing cigarettes?

Mr. Jerry Montour: Right now, it's unrestricted by any guidelines. In other words, anybody can order acetate tow, tipping paper, cigarette paper, any of those raw materials that you need. It could be a first nations or a non-first nations Canadian citizen who would have no problem whatsoever ordering those raw materials.

Mr. Dave MacKenzie: How about ordering tobacco?

Mr. Jerry Montour: Tobacco is under restricted guidelines. You're supposed to have a Canadian tobacco manufacturer's licence in order to obtain tobacco on the reservation.

Mr. Dave MacKenzie: But is tobacco not, in its raw form, controlled by the Flue-Cured Tobacco Growers' Marketing Board? I guess my question would be, can I go up to a farmer and order 50,000 pounds of leaf tobacco?

Mr. Jerry Montour: Not legally, sir, no.

Mr. Dave MacKenzie: So how does it get from whoever grows it, whether they grow it in Canada or grow it in the United States or grow it in China, to the first nations? If that's where the legal manufacturing takes place, how does it get into that process?

Mr. Jerry Montour: In different climates...say, around seven years ago when the tobacco farmers as a whole didn't feel so abandoned, that activity did not take place in the format it does today.

But right now, as you know, they've gone to the ministry of agriculture and asked for some sort of phase-in bio-program, because they're destitute. A lot of those farmers are in really, really dire straits right now. It's their opinion that big industry as a whole has abandoned them in order to acquire a lot of their product in Brazil and other such countries.

It was one of my suggestions a long time ago to the minister to allocate the amount of tobacco that's in a Canadian manufactured or sold-in-Canada product. I know they'll bring up world trade arguments, but I think we have an obligation to protect the Canadian tobacco farmers as well. I don't think we should abandon them.

Right now they're a bit more easy victims of prey from organized crime because they're destitute.

Mr. Dave MacKenzie: So if I look at that aspect, then, the next part is that after it's manufactured—I think, Mr. Kemball, you indicated that a big percentage of the illicit tobacco is then sold through contact. Who are those contacts, and is it an organized...? I know it's certainly not the variety store owners, who are legitimate in

Canada, but where do those contact sales originate? When we talk about organized crime, is it done by organized crime? Are they the beneficiaries of the proceeds?

Mr. Benjamin Kemball: What we're picking up in the survey—and this was in face-to-face interviews with consumers who showed what they were smoking at the time—those numbers take you to that total level of 22% across Canada. These are smokers who actually had illicit product with them.

The larger segment say they're buying it through contacts—through friends, through relatives—and having it delivered to them. That group is not buying it from a convenience store and they're not going on to the reserves to buy it.

It means there is a network out there. Anecdotally, we hear all sorts of accounts in terms of people leaving \$10 in their mailbox and coming back that evening and they have their baggie of 200 in there. In parts of Montreal, and indeed in other parts of Quebec, you have a card under your door saying, "Firewood, so much a cord; cigarettes \$6, \$8, \$10". So there is that network out there. How much of that is actually organized crime, in terms of the mob or the gangs, and how much of it is entrepreneurs getting into the illegal market, we don't know. Either way, it's bad news.

If it means there are new criminals coming into the market and setting up distribution networks, or whether it's organized crime in the sense that that is widely known, either way it's very bad news.

•(1630)

Mr. Dave MacKenzie: It would seem to me that one of the concerns we have to have going forward—all of society—is that when there's lots of money in it and it's all cash money, unreported, that's where criminal activity certainly moves in. Combined with that, when you have the pipelines that allow for illicit cigarettes, it's only natural, it would seem to me, that the parallels with it are illicit drugs, firearms, and human trafficking, and that's when the wars break out among the gangs.

Is that not a major concern—and maybe Mr. Montour would be in the best position to answer it—in the future for the first nations communities?

Mr. Jerry Montour: That's absolutely true. At the end of the day, if you are not allowed to conduct activities that are deemed to be in a lawful environment, the element of people you allow yourself to work with just becomes lower and lower. As a first nations businessman, I have a responsibility to all the people who are currently working in the industry and to people who are thinking of getting into it to make everything as transparent as I can about the good things that have happened in our business and the bad things that have happened in our business.

At the end of the day, I would say it could never benefit first nations people if all their activities are not totally transparent. If you can't conduct a sale for which you can take the money and place it in a bank and go around and buy products like any other consumer, then there's no way in the world I could possibly condone that activity, because it makes my people look like criminals.

The Chair: Before we begin our second round, Mr. Montour, maybe I'm a little thick, but I didn't get your answer to Mr. MacKenzie's question about how the tobacco gets to the reserves. Could you clarify that a little for me?

Mr. Jerry Montour: It's very important to note, because I feel a very strong commitment to the Canadian tobacco farmers. As you know, our manufacturing facility is in the heart of the Delhi-Simcoe region, so I get to see the effects. What has happened is that they all looked forward to some kind of government buyout—which may not have been the answer, and I respect your government's wishes....

One thing I respect your government for is total transparency. When they came to the Minister of Agriculture and asked whether he was going to buy them all out, he said no and stopped it right in its tracks. But because the big industry is utilizing that as a whole to barter against them and almost have them sell at fire-sale prices, it's hurting the farmers.

Therefore, they're allowing these shipments, even though they're deemed illegal, to take place, because they're desperate, sir. They come up in the middle of the night with 24-foot trucks, sell their product for cash, and move on, as you would with marijuana or any other illegal activity.

Mr. Donald McCarty: May we add something to that, Chair?

Mr. Benjamin Kemball: I think the RCMP will corroborate this information. By far the majority—the greatest part of raw tobacco used for illegal manufacture—originates from the U.S. Some of it comes from North Carolina and some of it comes from elsewhere in the world. We've heard reports also, anecdotally, that there are so-called “barn sales” of tobacco that bypass the auction system, but by far the majority comes up from the U.S.

When you look at the amount of illegal cigarettes being sold—that's 10 billion cigarettes—it's equivalent to 1,000 40-foot containers or big articulated trucks, and that's a huge amount. The amount of tobacco required for it is pretty well of the same magnitude, because tobacco is obviously the largest single component in a cigarette. So this stuff is largely being trucked up in huge quantities from the U.S.

I think that creates an additional challenge in terms of choking the supply of materials. For those reserves that straddle the U.S.-Canadian border, it's all very well to enforce the Canadian side, but unless you can ensure that similar restraints are being applied on the U.S. side of the border to incoming materials and machinery and tobacco, then there's a high risk that the choking-off strategy will be undermined.

• (1635)

The Chair: I don't mean to interrupt to ask more questions, but do either of you gentlemen have evidence for what you're saying here?

Mr. Jerry Montour: I have evidence for what I'm saying. There was a situation where the OPP intervened with a tobacco shipment that took place in the Delhi region, with 48,000 pounds of raw-leaf tobacco in it, right here in Canada.

We always looked towards Akwesasne as the heart of the contraband problem, maybe partly as the fault of how the thing is flourishing. Maybe we're all sitting around watching one house, and five houses down the road, everything's just partying on.

If you do not offer a fair opportunity to the Canadian tobacco farmers to sell their tobacco products, and if as a government you don't do things to control that this product being consumed is at least a product from their own country, then we've let the Canadian tobacco farmers down. I'm not going to change from that position.

The Chair: Okay.

Mr. McCarty, you seemed to indicate you had a comment.

Mr. Donald McCarty: The *RCMP Contraband Tobacco Enforcement Strategy*, which many of you have, mentions in that very report that they believe that a lot of the tobacco that is sent into the American side of the Akwesasne reserve comes from sources in the United States.

The Chair: Okay. Next on our list here, on the next round, for five minutes, is Monsieur St. Amand.

Mr. Lloyd St. Amand (Brant, Lib.): Thanks very much, Mr. Chair.

I have some short questions.

Firstly, to you, Mr. Kemball, and this is not necessarily on a point, but my understanding is that Imperial is now utilizing considerably less domestic tobacco than has been the case in years past. Is that true or not true? A short answer.

Mr. Benjamin Kemball: First of all, we always have a proportion of non-Canadian tobacco leaves for—

Mr. Lloyd St. Amand: I understand that, but the proportion of non-Canadian tobacco is increasing all the while. This is my understanding.

Mr. Benjamin Kemball: The majority is Canadian leaf, and we will continue to use it as our main source.

Mr. Lloyd St. Amand: Sorry, you're not quite dealing with it. The proportion of non-Canadian tobacco is increasing.

Mr. Benjamin Kemball: It has increased over the years.

Mr. Lloyd St. Amand: Okay, fair enough.

Mr. Kemball, you indicated that the taxpayer is losing \$1.6 billion in tax, and no doubt that's correct. That's the federal tax only, or is that the total tax?

Mr. Benjamin Kemball: That's all in; that's federal and provincial tax.

Mr. Lloyd St. Amand: That's all in, okay.

Is that Canada-wide or are you just factoring in Ontario and Quebec?

Mr. Benjamin Kemball: Canada-wide. Obviously, the bulk of it is in Ontario and Quebec.

Mr. Lloyd St. Amand: And you very cogently identified the different components of this difficult issue—the social issues, etc. You would agree that legitimate convenience store owners, principally, as indicated by Mr. MacKenzie, are losing a large part of their profit margin through the proliferation of the illegal sale of cigarettes. There's no issue there.

Mr. Benjamin Kemball: Absolutely. They're losing, by our estimate, \$120,000 in revenue every year because of illicit trade—obviously, in Ontario and Quebec, those that operate in those provinces.

Mr. Lloyd St. Amand: To you, Mr. Montour, if I may....

Mr. Montour's Grand River Enterprises is in my riding of Brant, so I'm well familiar with Mr. Montour, and I'm particularly familiar with the Dreamcatcher Fund, which gives back, in a tangible fashion, \$2 million annually to the community.

Mr. Montour, you've been manufacturing cigarettes—licensed—since 1997?

Mr. Jerry Montour: Yes.

Mr. Lloyd St. Amand: How many other cigarette manufacturers are there on Six Nations of the Grand River territory?

Mr. Jerry Montour: I think that would have been a question better posed for the RCMP, because they have more insight into the activities of what goes on in our territory. It's hard for me; I don't want to be ever on record as saying legal and illegal, because there are a lot of sovereignty issues in tobacco manufacturing as a whole.

I can tell you, Mr. St. Amand, that from our manufacturer's perspective, we've contributed over \$500 million in tax revenue since we've had our licence. That's why I was granted the incredible privilege of sitting at this table and that's why our company has committed to resolving these issues. That helps everybody.

Mr. Lloyd St. Amand: And the sale and/or manufacture of cigarettes illegally on Six Nations and the area has been a problem for a while?

• (1640)

Mr. Jerry Montour: We have gone on record complaining to the different governing agencies of all levels for the past eight years.

Mr. Lloyd St. Amand: Six Nations has a police force. To what extent, if any, has the local police force been able to curb the illegal activity?

Mr. Jerry Montour: That's a very good question and I'm glad you posed it.

The Six Nations police force never signed on to do taxation enforcement. Any time there are situations where there are other things that have been mentioned at this meeting today, they have a strong.... I also know that's a position of the Akwesasne police department too. If they get inquiries over drugs, guns, other forms of extortion, criminal activities, they do help in those investigations. But to come to this committee and have you feel that all first nations people on first nations territories will accept unlawfulness, that would be a very poor perception of our people. They're very interested in handling the criminal element in our communities. We just have some issues over taxation.

Mr. Lloyd St. Amand: If I may, then, I think I just have a minute left....

Let's say tomorrow any one of you is named Minister of Public Safety. You deal with a difficult issue—an illegal supply, a market that's out of control, unlicensed manufacturers, social problems mounting. What do you see as the immediate thing you can do to stem this problem?

Mr. Jerry Montour: I believe you definitely have to look into the raw materials coming to manufacture these tobacco products, allowing all manufacturers that participate in any way to give total transparency to their activities.

Mr. Benjamin Kemball: I would suggest that the key priority would be to call a national task force, given the wide number of areas that are impacted by illicit trade and the different enforcement actions that need to be taken, at the provincial as well as federal level. I think the appointment of a senior government official to chair a task force, bringing together collectively the government forces to deal with this problem, would be a pretty good place to start.

The Chair: Thank you.

We'll go over to the Bloc Québécois now.

Ms. Thi Lac, please.

[*Translation*]

Mrs. Ève-Mary Thaï Thi Lac (Saint-Hyacinthe—Bagot, BQ): Good day and thank you for coming here this morning to testify before the committee.

I also want to thank Mr. Montour for acknowledging his lack of consideration in failing to have his documents for us in French. However, I do appreciate that they will be translated and made available to us.

According to the chart on page 4 of Imperial Tobacco's submission, the overall number of people who smoke is down slightly. My generation was bombarded with ads designed to educate the public on the dangers of smoking. Cigarettes could not be sold to anyone under 18 years of age. My generation learned that you could not buy tobacco products if you were underage. Paradoxically, however, since 1976, while the number of adult smokers is down slightly, there are more young people... Statistics do not show a decline in the number of young smokers, even though my generation and the generations after me were targeted by public awareness campaigns. The illegal tobacco trade likely targets young people, because they are not old enough to walk into a store and legally purchase tobacco products. I realize full well that by mounting a strong campaign to fight contraband products, we will also be educating young people and maybe even stopping some of them from getting hooked on cigarettes.

My first question follows up on something Mr. St. Amand said.

Mr. Montour, you talked about raw materials. Could you explain to me exactly what you meant by "raw materials" in your recommendation to fight tobacco contraband?

•(1645)

[English]

Mr. Jerry Montour: As we pointed out in our presentation, you'll see the raw materials there are acetate tow, which goes in the filter, cigarette paper—and it is for the use of tobacco products. A lot of people may argue it has multiple uses; not that I'm aware of. I still think we can define which uses these products are being used for. I think the acetate tow filter, the cigarette paper, the tipping paper that goes around the outside of the tobacco product are very good starts.

On the tobacco itself, the more we highlight the activities where the tobacco is getting to these factories, I think it will stop it.

In addition to that, the tear tape that goes around the outside of the product is brand-specific; it is made for tobacco.

That is part of my belief and strategy that can be done immediately. If we start trying to get into negotiating, are we going to negotiate tax treaties with different first nations territories, and are we going to...? That could be a very time-consuming and dragged-out procedure.

I agree with you, if there's anybody who's stigmatized by the tobacco industry, that tobacco products are reaching young people, somehow it always seems to get blamed on first nations people. As soon as we can identify that it's a whole industry problem—it's not just for first nations retailers—the better we are at stopping it from getting it into the hands of young people.

[Translation]

Mrs. Ève-Mary Thaï Thi Lac: I see.

[English]

Mr. Benjamin Kemball: In answer to the question concerning youth smoking, we don't have market research information on youth. We don't track that, but the government statistics do. There is a survey conducted by the federal government.

The long-term decline in the adult population that smokes has been going on since the 1970s. It runs at about 2% or 3% a year in terms of the decline.

The same trend is also seen in the government figures on youth. However, I totally agree with the concerns you raise. When kids have access to tobacco products outside the normal retail network, where the retailers themselves have their own programs and training to ensure that their staff don't sell to kids, but clearly the networks that are distributing illegal tobacco products are not concerned about asking for proof of age, there is that risk. And we know for a fact that the controls that exist to prevent kids from getting access to tobacco products are being bypassed by the illegal market.

The Chair: Thank you very much.

We'll now go over to the government side again—Mr. Norlock, please.

Mr. Rick Norlock (Northumberland—Quinte West, CPC): This question is for you, Mr. Montour.

Just before I hit the major part of my question, I want to go back to the material. In the simplest of terms, all the things that go into the manufacture of cigarettes—the filter, the papers, those other items—

are all specific to the tobacco industry. They're not used for any other purpose, including the filters, as far as you're concerned. That's absolute, as far as you're concerned, or relatively so.

Mr. Jerry Montour: Certainly the ones designated for it. They could say, "Oh, paper is used in writing and everything else", but not the cigarette paper.

Mr. Rick Norlock: We're talking about cigarette papers, which are product-specific. People don't use cigarette paper to write on, or do they?

Mr. Jerry Montour: I believe they only use them for tobacco manufacturing.

Mr. Rick Norlock: Right.

How about the tubes? I've seen that you can buy tubes. Are they specific?

Mr. Jerry Montour: Yes, you can buy tubes, but once there seems to be some form of government regulation, you'll have transparency; you'll know how much tube makers use to make those tubes.

Mr. Rick Norlock: Do manufacturers make their own tubes? Do you make your own tubes?

Mr. Jerry Montour: No, sir, we don't make tubes.

Mr. Rick Norlock: What about Imperial?

Mr. Benjamin Kemball: We don't make tubes. We do sell them from others who make them, but tubes are not used in the manufacture of cigarettes. They're used by consumers who buy loose tobacco, fine cut, and assemble their own cigarettes. In the manufacturing plants, the cigarettes are made directly from the filter, the tobacco, the cigarette paper, and the cork tipping, which is used to hold it all together.

Mr. Rick Norlock: Thank you.

Mr. Montour, the RCMP estimates that there are a certain number of young people, especially in the aboriginal community, who are being exploited by organized crime in terms of contraband tobacco and that this activity may be paving the way for their involvement in other criminal activity.

Have you seen evidence of this youth crime on reserves, from your personal perspective, and has it increased proportionately in response to the contraband trade?

•(1650)

Mr. Jerry Montour: I think it's best for the RCMP to comment in their own reports and what they believe, because I would never want to be in a position of contradicting what I believe is a very efficient government agency.

Mr. Rick Norlock: I'm not asking you to contradict it. I'm just asking for your personal perspective, based on what you've seen from the RCMP reports and from your own experience.

Mr. Jerry Montour: I believe that if we don't do something to bring a little more transparency to the industry as a whole, Honourable Member, you're going to have our kids in a very mixed-up state of mind. They are not sure what's legal, what's not legal, and where they're going with things in life.

If you come to some reserves—for example, Six Nations—it looks like a war zone right now. It truly does not look like the Canada that we all want our first nations kids growing up in. It's not a normal environment for a young person to grow up in, and if they have to work in a tobacco factory that's unregulated, how does anybody know whether there are firearms and other things and activities in there? Nobody will be able to answer that.

I'm not welcome in those factories, obviously, because it's very transparent that our companies pay federal taxes. I couldn't comment on what goes on in other factories.

Mr. Rick Norlock: Are you aware of any strategies that might currently be in place on reserves to combat this? Is there a movement from within the first nations?

Mr. Jerry Montour: One of the things keeping first nations communities from tackling this problem is that there seems to be a question of control, from the provincial government's perspective, about who has jurisdiction over the reservation. From the provincial government's perspective, they have jurisdiction over the reservation. But when it comes to land claims, they think it's the federal government's job, and they push the federal government in front. That's why I look to the federal government to help the people who want transparency in the industry, to help us survive in business and move forward.

I've done everything you've asked of us, as a company, and now I want you to help me, as a manufacturer. I want you to help our people.

Mr. Rick Norlock: I appreciate that.

On Friday, May 9, there was an article in *The Hamilton Spectator* by Leroy Hill, secretary for the Six Nations traditional government, indicating that the first nations are developing their own laws to deal with tobacco issues. Have you heard anything about these intended laws—how they'll be enforced or who'll enforce them?

Mr. Jerry Montour: I know they're not in place right now, so it would be irresponsible of me to comment. If it's a work in progress, they need to apply it.

Mr. Rick Norlock: Thank you.

The Chair: Mr. Easter.

Hon. Wayne Easter (Malpeque, Lib.): Thank you, Mr. Chair. Thank you, folks, for coming.

I had several meetings with tobacco producers in Ontario. You're absolutely right that they're frustrated and disappointed. They actually believe that the government made a commitment to an exit strategy and that the government violated the commitment. They feel the current Minister of Immigration made a commitment to them that hasn't been lived up to. So there's a view that the government has let tobacco farmers down.

Mr. Dave MacKenzie: Does this have something to do with them?

Hon. Wayne Easter: Yes, it has. Mr. Montour said earlier that he feels a lot of the illegal tobacco is coming from Canada. Mr. Kemball said a lot of the illegal tobacco is coming from the United States.

But regardless of that, Mr. MacKenzie, the government broke its word. That's what the tobacco industry is telling you, and that's what's been said in the press.

Regardless of where this illegal tobacco is coming from, it has to be loaded on a truck and taken to the illegal production plants. Why, from your perspective, has this not been stopped on the highways?

• (1655)

Mr. Jerry Montour: First of all, I'm not here supporting any particular government agency. I respect the current government for transparent answers. I took part in a meeting with the Minister of Agriculture, and there was no wishy-washy about it. No, the government is not going to buy out the Canadian tobacco farmer. The industry and all of us in this room have to look at a way to help the Canadian tobacco farmer, and job one is to get a handle on legitimate sales.

It's a big region out there in tobacco country. When you understaff law enforcement, when you have them running all over the place looking at all kinds of other activities, when you expect them to know what goes on in every single truck in a rural region, you are asking for the impossible. We have to come up with a sensible solution that we can get the farmers to buy into. The farmer grows the product. If he felt confident that there was an exit strategy—whether it was so many cents a carton or something else that would allow for a transition period—I don't think he'd be so inclined to involve himself in an illegal activity. That's just my perspective.

Hon. Wayne Easter: I'm not disagreeing with you on that point. I'm saying that one step has to be an exit strategy on the Canadian side. This won't deal with the illegal product coming in from the American side. But certainly a part of the problem has to be enforcement.

I'm a former solicitor general. I believe there's a lot of knowledge about where that product is on the roads, and I can't understand why it's not been stopped or why there are no arrangements with the United States that would stop the product from getting to source. We're not talking about a little bit of product here; we're talking about huge amounts that have to get to and from the production facilities. If law enforcement was doing its job, this business would be stopped at its source and in transit.

Mr. Jerry Montour: It would very irresponsible for me personally to sit here and critique law enforcement. I think they have an overwhelming job to do right now. I think they take the tobacco industry very seriously. Maybe they're undermanned; I don't know. I can't answer for law enforcement.

What I do know is that every time we've asked for a meeting, we've had a lot less trouble getting a meeting with law enforcement than we have with government agencies, in all honesty.

Hon. Wayne Easter: In terms of the product itself, is the package that went around the table here an illegal product?

Mr. Donald McCarty: May I comment on that, Mr. Chairman?

The Chair: Yes, go ahead.

Mr. Donald McCarty: I've been wanting to say this for some time. I've been waiting for the right question—that is, why is this product illegal?

First of all, it's sold for \$6. It's manufactured in a facility that probably doesn't have a licence, which is an infraction. Once it was manufactured there, it was smuggled across the border. That's another law broken. Then the excise tax wasn't applied; another law broken. The provincial tobacco tax wasn't applied when sold off the reserve. That's another law broken—and we're not talking about the GST and the PST.

Then what happens? It's sold to the consumer. Is there a health warning? No. Do we have the constituents on the side? No, we do not. Is the paper of low-ignition propensity? No, it is not.

There are at least a dozen health-related infractions with this bag. Then there's the Consumer Packaging and Labelling Act, which the Competition Bureau has to apply.

What's in this? I don't know.

If this was beer—someone's selling beer in clear plastic bottles, let's say, that are unmarked—would you drink it? No. But everyone smokes this stuff.

The name of the manufacturer is not on it. That's another infraction. The Competition Bureau is supposed to enforce that. What's in it is not marked. Where it comes from is not marked.

Health Canada has a dozen, at least a dozen, infractions of health regulations and the Tobacco Act itself. These are all violated systematically. None of this is enforced.

So that's why this is illegal. It's illegal: let me count the ways.

Hon. Wayne Easter: Yes, and I appreciate that response—

The Chair: We have to wrap it up here.

Hon. Wayne Easter: Okay.

So it's not just a matter of law enforcement. It's a matter of customs officials, it's a matter of health officials, it's a matter at the retail level. Then why, from your perspective...?

If we know it's been illegally manufactured, I can't understand why it isn't being stopped more than it is.

Mr. Donald McCarty: The left arm of the government knoweth not what the right arm of the government doeth—which is why, when the suggestion is made for a task force set up by government, with a senior government official in charge to put together all of the enforcement arms of government, provincial and federal, we think it's a good step in the right direction.

• (1700)

The Chair: Thank you.

No one from this side?

Mr. Cullen, please.

Hon. Roy Cullen: Thank you, Mr. Chair.

Mr. Kemball, you mentioned the figure of \$1.6 billion in lost revenue. That's provincial, but do you have an idea of what the federal component of that is, roughly?

Mr. Benjamin Kemball: I think it's roughly a third, given that in Ontario and Quebec the provincial tobacco taxes are higher, roughly double what the federal excise is.

Hon. Roy Cullen: Mr. Montour, I like your idea of trying to track the inputs, but I'm going to be the devil's advocate for the moment.

Colleagues were asking where these illicit manufacturers get their tobacco from. Well, they get it through black market transactions. I thought I heard someone say that you can only buy tobacco in Canada, leaf tobacco, if you are a registered manufacturer. So if they're not registered manufacturers, they're buying the tobacco on the black market. You can refute that if I'm wrong.

If you control the inputs, as you're suggesting—I think it's an idea very worthy of consideration—will that market go underground as well? That would include the papers, the filters. If someone's tracking that and saying, “Whoops, you're selling to someone who's illegally manufacturing cigarettes”, could that just go underground as well?

Mr. Jerry Montour: I don't really have the exact answer to your question. All I can tell you is this: if there's a request for transparency, and these products are coming out of publicly traded companies, then they have an obligation, under the proceeds of crime act, to be totally transparent.

So if they are evading and doing some other form, and you prove that they have knowledge that they're evading that industry, it's indictable. You can go after them.

Hon. Roy Cullen: I'm not sure who among the three of you, Mr. Kemball, Mr. Montour, and Mr. McCarty, could best answer this next question.

Let's say you're picking up some of these smoke packs at whatever network and taking them to these doors of residential areas and selling them in those packs. First of all, is that a Criminal Code offence? And is the person buying them breaking the law?

So there are two parts to that.

Mr. Donald McCarty: Well, the distribution of the product would be the aiding and abetting of one of the myriad other offences I related to you before. I don't believe it's actually an infraction to buy them illegally, but I could be wrong on that.

Hon. Roy Cullen: I just have one final question.

When we talk about this—and I know what you're referring to, Mr. Kemball, when you talk about trying to get a whole range of stakeholders together, and the RCMP report alludes to that—let's face it, at the end of the day, whether in the United States or Canada, there is a whole range of illegal activities happening on first nations reserves, unless I'm misinterpreting all the data I've seen. And with respect, I know we're not saying that it's all happening on first nations reserves, but a lot.

We have this sensitivity about taking enforcement action on reserves, either in the United States or Canada. But if people are breaking the law of this country—and I can't speak to the United States—and we're allowing these things to go on without enforcing our own laws, don't we have a responsibility? I understand the need to look at it holistically, and maybe to look at the taxes and at the suggestions Mr. Montour is coming forward with, but don't we have a responsibility to enforce our laws? If they're being broken on a reserve, it doesn't matter.

Mr. Benjamin Kemball: Absolutely, I totally agree. That's why on the last page of the presentation, when we come to potential solutions, first and foremost, it's proper enforcement of the law. And that's not just the law concerning tobacco taxes, but everything else Mr. McCarty referred to. Let's face it, if the law were being effectively enforced across the board, then this problem, to a large extent, would be much smaller than it is today. On top of that, the tobacco control policies that Canada has put in place over decades would not be under threat of failure.

Mr. Jerry Montour: You know the problem has been ignored for the last 10 years. So to just mount up the RCMP, have them get their infantry ready, and go marching into the reserves might not be the best solution in this particular climate. In this political climate, when you have land disputes and everything going on in Ontario and Quebec.... If this approach is going to take place, it should have been put into place by former governments 10 years ago—a long time ago. But now that we're all left with this mess to clean up, the real bottom line is really simple: if we at least start with one strategy and see a success with it, then we can move forward.

But I know that first nations people as a whole are asking, when was the last time a non-native person aiding and abetting this situation was indicted? If you pass laws saying there should no longer be acetate tow on reservations, and you trace it back and you indict the CEO of Eastman Kodak, and if another Indian were also to be in jail, that would be nothing.

Do you know how many Indians are in jail right now? Well, I guarantee you, there are no non-native CEOs in jail. If you start making them accountable for their activities, believe me, it will stop. That I'm sure of.

• (1705)

The Chair: Thank you.

I have two more people on my list.

Mr. St. Amand, you asked for some time, and then Mr. Hanger.

Mr. Lloyd St. Amand: Mr. Cullen already asked the question, but if Mr. Montour wants to answer this, he can. Is it illegal to buy a product that offends a dozen or so laws?

I understand from your answer, Mr. McCarty, that the buyer who's complicit in this scheme, so to speak, is doing nothing wrong by purchasing a cigarette at one-tenth of the value he would pay down the street at a convenience store.

Mr. Donald McCarty: I've never really examined that question. I believe it's not illegal per se for somebody to buy a cigarette that violates, for example, the Tobacco Act. I could be wrong on that. Certainly, if somebody were buying them in huge quantities and reselling them to all his buddies, that is a different story, because

then he's aiding and abetting the illegal distribution. Whether or not it's illegal for someone to just buy them for their own use, if they go up to a smoke shack on Kahnawake and buy 200, I'm a little embarrassed to say that I'm not quite sure.

Mr. Jerry Montour: To help my colleague's argument, at the end of the day, it may not be illegal to buy them, but it certainly is illegal to obtain them. At the end of the day, if you're in possession of that product, you're in possession of something that's illegal. So that will help you get to that point, whether the person gets caught with one or you get caught with 50.

I do take offence when they cite a particular reserve, whether it be Kahnawake, or Wahta or Six Nations or Akwesasne, because the idea is not to come in here.... Because I'm from the first nations, I have an obligation to stick up for my people. There are a lot of people who are law-abiding first nations people who want to see the success of this industry, and there are a lot of people who are here to contribute in a very positive way. I don't think it's fair to ever attack just one area.

And you guys should agree with that, too, as you're in Quebec.

The Chair: Thank you

I now have three people on my list—Mr. Hanger, Monsieur Ménard, and Ms. Priddy.

Mr. Hanger.

Mr. Art Hanger (Calgary Northeast, CPC): Thank you, Mr. Chairman. I appreciate the opportunity to question the panel here.

I'm pleased that Mr. Montour came forward to testify. It's interesting. I've been invited down into your area several times by some friends who live in the community. Part of it has to do with the increased activity when it comes to contraband that is distributed in the region.

I was quite surprised that you mentioned the term “like a war zone” in regard to the area and the reserve. I assume that's what you meant by utilizing the term “war zone”. It obviously creates some concern for you about what might be happening or what might possibly be happening in the future. I don't know what you meant by that, but I would like some clarification.

I did actually buy some of those contraband cigarettes while I was there, and I was quite surprised that for \$6 or \$8 you can pick up a pack. But what surprised me even more was the amount of this contraband that's being sold in Calgary. Truckers pick it up, they move it right across the country, and they're selling it—what they can pick up here for \$6—for \$40 in Calgary. So I can see that there's quite a generation of capital, of cash, with no tax being paid on any of it.

The other thing that surprised me was the number of these smoke shacks, as Mr. McCarty has relayed, just in that one area that I was—I'm going to say—fortunate enough to visit, because I don't think anybody has a perspective on what's happening until you go and see for yourself. There are something in the neighbourhood of 200 just off the reserve. It's quite a business operation.

It concerns me, as a member of Parliament, as a former law enforcement officer. I have to say that I would like to see the law enforced evenly too. You, as a businessman, would like to see the law enforced. That would mean everybody gets equal treatment. What I get from you is that not everybody is getting equal treatment. And this is just in one area. It doesn't just apply to contraband; it probably should apply to all aspects of the law to create a safe environment.

Mr. Montour, you have a concern for the future of your reserve, your people, and I would have to assume that it goes beyond just your reserve and your people. It would deal with your business, and probably the community around you, because we don't live in isolation from one another.

I'm curious as to what you see happening with the youngsters in your community, then, when it comes to their involvement in dealing with some of this contraband, if it's just the young people in the Six Nations, for instance—and I don't mean to single out Six Nations, but that's the only place I've seen this kind of activity. What could we do together to get rid of the problem?

• (1710)

Mr. Jerry Montour: First of all, thank you and all the panel members very much for allowing us to come and address these issues.

In answer to your question on what I see for first nations young people, it's not just in Six Nations, but in a lot of first nations territories all throughout Ontario and Quebec I see confusion. I see constant struggle over jurisdiction, over land claims issues.

I'll give you one example. First of all, I happen to be a proud member of Wahta Mohawk, which is in northern Ontario. I conduct my business on Six Nations. Young kids are going to high schools. We don't have a high school. We had one that was a bilingual high school on a reserve, but they were trucked in there. There's really no warm reception for young first nations individuals when you're in the middle of a land claim dispute. There's a lot of fear-mongering amongst other people telling them what's going to happen to them. The way they strive to get ahead is economically. If the only tools you have to get ahead economically are perceived to be illegal, basically it doesn't give you much opportunity, does it? That's where I'm trying to get to the meat of the problem.

When you ask, what's our solution, I really truly believe in my heart that a very first step is what's happening here in this room. A second step is that if you get involved with the raw material aspect of the business, then we'll all have a true, transparent number of what we're working with. Then we can look at revenue-sharing to first nations communities. Who has the jurisdiction to tax the product? How somebody can choose to pay it into their own community...how they have that option. That option was explored 23 years ago. I can remember coming up to this same building. I had every first nations member in the community saying, "Don't sell me out or don't come home". I went up to the Minister of Finance and asked if we could work on some kind of revenue-sharing. I remember Mr. Anderson's name as if I'm looking at this microphone. I said, "Is there was any way it can benefit our people?" Basically he sent me packing.

Here we are, 23 years later, and we have to start tackling these issues. I know everybody may not agree with me on the raw material

perspective, but let's face it, I'm in the industry and I'm a native manufacturer, so I have a pretty good insight as to what I believe will control the issue.

Mr. Art Hanger: You're a licensed manufacturer.

Mr. Jerry Montour: I certainly am a licensed manufacturer.

Mr. Art Hanger: There are many there who are not.

The question I would ask is this. Is it not in your best interest to see that they don't operate any more?

Mr. Jerry Montour: If you're talking to me from a first nations perspective, it doesn't benefit the community as a whole. The licence does not serve me well if it doesn't help my people overall. Yes, I could lose everything I own for saying that, but do you know what? I'd rather be broke. At the end of the day, it has to benefit all people. There's no doubt about that. I've contributed \$500 million to get that put out. Right now what I'm asking for here is a level playing field. There has to be a level playing field.

• (1715)

The Chair: Thank you.

We can come back to the government side later.

Monsieur Ménard, you indicated you have another question.

[*Translation*]

Mr. Serge Ménard: I have a question for you before you go.

We've heard about a technology that would see each cigarette tagged in such a way that it would be possible to know if it was made by a licensed manufacturer. I'm not quite sure how the technology works.

When I was young, the package came with a stamp that you had to break with your fingernail. Later, packages came with a small piece of paper that you removed. Now we're hearing about a computerized identification system of some kind.

Have you heard about this technology?

[*English*]

Mr. Benjamin Kemball: I think Monsieur Ménard is referring to the CRA's proposal to bring in a stamp that basically has a hologram and coding linked with it that would be applied on all cigarette packs, with effect from 2010 onwards. It's an interesting idea. The reason for that is really to deal with the problem of counterfeit, which is a copycat product mainly brought in from places like China.

However, I think to deal with the problem of illicit trade in Canada today, it's pretty well totally irrelevant when 97% of the product is violating so many different laws, whether it's the absence of health warnings or the non-payment of taxes. You're not going to find the manufacturers of this product putting holograms of a CRA tax stamp on this.

[Translation]

Mr. Serge Ménard: That is precisely the point. If inspectors dropped into a convenience store that sold illegal cigarettes, they would quickly be able to identify contraband by scanning the product. I don't know about holograms, but I think there would be computerized chip that would show up when the product is scanned.

Inspectors would be able to identify quickly any contraband products on which tax had not been paid. That's the technology I was thinking about. Have you heard about it?

Basically, I'd like to know if you have done a cost estimate? Also, would you be willing to cover the cost of this technology?

[English]

Mr. Benjamin Kemball: Yes, there is a possibility of using things like tax stamps for what has been described as track-and-trace technology. You need coding, which could be applied through the tax stamp, that would enable one to identify which manufacturer produced that cigarette, and when, and in which location.

These sorts of options are potentially of interest in terms of controlling illegal tobacco trade, but again, if the manufacturers of these products aren't enforcing any of the laws today, they certainly won't be applying track-and-trace technology to this—on the contrary.

[Translation]

Mr. Serge Ménard: The thing that interest me is that this technology would address the problem of persons who put their contraband cigarettes in packages that are similar to the ones used by legitimate companies to market their product.

Mr. Donald McCarty: This technology could prove helpful in dealing with the contraband problem. Counterfeit occurs when a package of Player's is being copied perfectly and then brought back here. It would be useful for dealing with cases like this. However, according to our estimates, illegal products account for only 1% or 2% of the problem.

If counterfeit cigarettes accounted for 90% of the problem, then I would agree with you that using highly sophisticated technology would be one possible solution. However, as Mr. Kemball said, if the product maker is violating about twenty different laws, he is not likely to incorporate sophisticated technology into his products.

We don't need sophisticated technology to recognize an illegal product in a convenience store. We don't need an expert to tell us a product is illegal.

•(1720)

[English]

Mr. Jerry Montour: With respect to the honourable member, the stamping process is done in about 87% of all the countries in the world, though, so it is a good suggestion, and it can be part and parcel of a bigger strategy to view it. I asked my colleagues and I know it's done all over the world—

[Translation]

Mr. Serge Ménard: Are you prepared to cover the costs of implementing this system? Imperial Tobacco claims that it is not worth the effort. Do you share that view?

[English]

Mr. Jerry Montour: If it's part of a strategy that moves towards all of it, yes, it certainly is, because we'd be collecting the tax up front then.

[Translation]

Mr. Serge Ménard: It is illegal to be in possession of an illegal product. I've just checked in the act and it's as I suspected.

Mr. Donald McCarty: I didn't quite understand your question.

Mr. Serge Ménard: It wasn't a question. Earlier, you asked me if merely being in possession of cigarettes...

Mr. Donald McCarty: Possession for the purposes of distribution would be illegal, but if a person purchases the cigarettes for his own consumption, then I don't think that is illegal.

Mr. Serge Ménard: Yes, I've checked and it is illegal.

[English]

The Chair: Ms. Priddy, did you have a question?

Ms. Penny Priddy: Yes, thank you.

I realize you may only be able to comment on this by observation and not by statistics you have, but when we talk about youth and youth being drawn to contraband tobacco, I know that across the country smoking rates among youth are dropping in many provinces. It's more for young men than young women, and that has a whole lot of other packaging pieces attached. But we have heard that with regard to the routes that are used, the people who bring up contraband tobacco from the United States may also use those routes for other kinds of illegal activities, whether it's drugs or guns or whatever it is.

Again, I realize it's anecdotal, but I wonder whether you're seeing aboriginal or first nations youth not only seeing contraband tobacco but being pulled at different levels into the actual mechanics of contraband tobacco—not just having the access to it, but actually becoming involved in the train, if you will, of the mechanism of it.

Mr. Jerry Montour: One thing that concerns me very much, as a first nations person, is that the fastest-growing rate of underage smokers—in all of North America, not just in Canada—is on first nations territories. That's something that even our leaders should discourage at the end of the day; that's a given.

I don't want to always think that all of the problems within the contraband industry are a characteristic of reservations that straddle the U.S. and Canadian border. That's just one small aspect of the problem we have at hand. But I don't believe there's a responsible first nations person living on Turtle Island—there could not be—who would not want to address the situation of underage smoking, especially among our own people, but as well among other, non-native people. It's just something that needs to be addressed.

I'm not going to ignore that it's—

Ms. Penny Priddy: Whether it's first nations youth or non-first nations youth, do we see youth being caught up in the more sophisticated criminal cycle of contraband tobacco, rather than simply in the increase in smoking?

Mr. Jerry Montour: Young teenage first nations people need jobs, like anybody else, so they'll go where the jobs are.

Ms. Penny Priddy: Thank you.

Mr. Jerry Montour: They're human.

Ms. Penny Priddy: Thanks, Jerry. That's fine.

The Chair: Are you done?

Ms. Penny Priddy: Yes, thank you.

The Chair: Are there any other questions? Does anybody have another question?

I'd like to thank our witnesses, then, for coming before this committee. It's been a very interesting time. You've given us a lot of good information, and I'm sure it'll be very important as we put together a report.

This meeting stands adjourned.

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