National Farmers Union
Presentation to the
House of Commons
Standing Committee on Agriculture and Agri-Food

on the need for immediate action
in support of Ontario tobacco farmers

Ottawa, Ontario
Tuesday, June 10, 2008

National Farmers Union
Presentation to the
House of Commons
Standing Committee on Agriculture and Agri-Food

on the need for immediate action
in support of Ontario tobacco farmers

Ottawa, Ontario
Tuesday, June 10, 2008

Introduction

The National Farmers Union welcomes this opportunity to address the House of Commons Standing Committee on Agriculture and Agri-Food on the need for immediate action in support of Ontario tobacco farmers.

The National Farmers Union was founded in 1969 and is the only farm organization in Canada chartered under a special Act of Parliament. The NFU is a Canada-wide, non-partisan, direct-membership organization composed of thousands of family farmers who produce a wide range of commodities. We advocate policies which strengthen farmers' market power – thereby leading to higher realized net farm incomes. We promote sustainable agricultural practices, protection of the environment and social justice.

NFU policy is democratically determined by farmer delegates at annual conventions, following the introduction of resolutions and the conduct of informed, reasoned debate on issues of concern. All members of the farm family, including women and youth, are eligible to vote on policy at our conventions, and are also eligible to hold leadership positions at all levels of the organization.

The National Farmers Union recommends that the federal government implement an immediate plan that treats farmers with dignity and respect and provides for an orderly phase-out of tobacco production, without the hardship of loss of their life's equity.

The NFU's current policy statement regarding tobacco, adopted in 2004, reads as follows: **"The production and manufacturing of tobacco is highly regulated by government, and generates considerable income for the government in the form of taxes. Multinational tobacco companies are increasingly turning to imported tobacco in an effort to boost profits, which leaves domestic tobacco producers and**

their communities in a difficult position. The NFU calls on provincial and federal governments to implement long-term solutions and meaningful financial commitments to maintain the viability of family farmers in their quest to diversify."

This policy recognizes that over the long-term, tobacco production is neither a viable or desirable option for family farmers in southern Ontario. The declining size of the annual crop, the increasing economic strength of the multinational tobacco companies operating in Canada, the failure of the government to impose import controls, failure of the government to protect the supply-management system at the WTO negotiations, and the rapid increase in the sale of illicit tobacco, have all worked to undermine the ability of the supply-management system to ensure fair prices for tobacco producers.

A plan for a complete buy-out of tobacco quota in Ontario must be implemented.

The price paid to farmers for their quota should be $3.30 per pound, a figure which reflects estimated costs for quota holdings, equipment[1], lost earnings and loss in land values.[2] Funding for the buy-out plan would come from a specific levy on the sales of all tobacco products in Canada – including those manufactured in Canada and those imported as finished goods.

Historical context of tobacco production and marketing

The legal and government-sanctioned production of tobacco has provided a source of stable and profitable employment for rural communities in many parts of Canada, particularly southwestern Ontario. But the wealth generated through tobacco is not limited to rural areas. In fact, it is important to recognize that the biggest beneficiaries of this industry over the past century have been governments and tobacco manufacturing companies. The taxes flowing to both provincial and federal levels of government in Canada over the past 15 years is estimated to exceed $75 billion.[3] Imperial Tobacco Group PLC, the world's fourth-largest tobacco company and the parent company of Imperial Tobacco Canada, posted a profit in 2007 of $1.88 billion ($US).[4]

---

[1] Recently, tobacco producers were required to upgrade their kilns and other expensive equipment. This equipment is not convertible to use in other agricultural commodities.
[2] "**Eliminating Tobacco Production in Canada: A proposal from the Ontario Flue-Cured Tobacco Growers' Marketing Board**," March 2006. The calculation of $3.30 per pound is contained in the report prepared for the Tobacco Board by the accounting firm of Good, O'Donnell and Redden. The report estimates that after quota transfers associated with the TAAP program are complete, there will be 271,806,612 pounds of Basic Production Quota held by Ontario tobacco producers. This would require a total payment for the exit program of $897 million in 2006 dollars. The report also suggests a negotiated payment for "sharegrowers" who split expenses and returns with quota holders, but does not put a specific figure on such a payment.
[3] **Strengthening Canada's Tobacco Control Policy: A Blueprint for Action on a Fair and Accountable Tobacco Production Exit Strategy**, Tobacco Farmers in Crisis group, August 2005 (Revised October 2006), PO Box 99, Simcoe, Ontario N3Y 4K8.
[4] **Imperial Tobacco profit up 6.3 percent for the year**. Associated Press, Globe and Mail Report on Business, October 30, 2007.

Tobacco has been grown in specific areas of eastern Canada for nearly four centuries. The earliest recorded incidence of tobacco production in Canada occurred in Quebec along the shores of the St. Lawrence River, when settlers of New France emulated the smoking customs and production methods of aboriginal peoples in the area. A French colonial ordinance forbade retail sale of tobacco in New France, so the vast majority of tobacco was grown by farmers for their own use, and the curing of the tobacco leaves was traditionally done in the open air. The resulting "tabac canadien" was unique. French colonists eventually began trading tobacco in 1652, but it wasn't until 1735 that commercial tobacco production of two native varieties was encouraged by the colonial government.[5] In English-speaking Upper Canada, United Empire Loyalists from the southern United States brought with them other varieties of tobacco seeds, which formed the nucleus for tobacco production in present-day Kent and Essex counties in southwestern Ontario. Commercial production of tobacco in Ontario expanded in the early 1860s as a result of the US Civil War, which raised the price of American tobacco and prompted companies to source supplies domestically. Tobacco production in Ontario was further encouraged in the 1880s by the federal government's imposition of high tariffs on imported tobacco. The introduction of flue-cured tobacco varieties in the early 1900s by the Empire Tobacco Company (which later became Imperial Tobacco) particularly in the area around Leamington, Ontario, also boosted production. The volume of tobacco production in Canada rose from 726,000 kilograms in 1870-71 to 7,938,000 kilograms in 1910.[6] However, two-thirds of tobacco used in Canada in the 1920s was imported, and it was not until the 1930s that large acreages of southwestern Ontario's sandy soils were planted in tobacco.

The increase in tobacco acreage in the 1930s benefited the large tobacco companies, including Imperial Tobacco, Canadian Leaf Tobacco, and Macdonald Tobacco. Representatives of "leaf buyers" travelled to individual farms to negotiate prices. "This 'barn buying' system was comparable to a 'divide and conquer' strategy. Buyers were in a powerful bargaining position; farmers were not. Often there was little competition among buyers; farmers might receive only one offer, or maybe none. Farmers had almost no room to negotiate."[7] In 1932, the prices offered farmers were so low that the Tillsonburg News editorialized about how the tobacco companies were "intimidating" growers using "degrading and dastardly" tactics that harkened back to the days of slavery.[8] Dissident tobacco growers organized their own cooperative, and appealed to the federal government to investigate price-fixing by the big companies.

The Flue-Cured Tobacco Marketing Association of Ontario was established in Simcoe in 1936 as a result of farmer dissatisfaction with the barn-buying system. However, 7 of the

---

[5] www.thecanadianencyclopedia.com "Tobacco-Products Industry" – The Canadian Encyclopedia – Historica.

[6] **Smoke and Mirrors: The Canadian Tobacco War** by Rob Cunningham, published by International Development Research Centre (IDRC), 1996. Available online at Tobacco farming in Canada, "Farmers on Tobacco Road", International Development Research Centre, http://www.idrc.ca/en/ev-28833-201-1-DO_TOPIC.html

[7] IDRC, ibid

[8] IDRC, ibid

23 Board members on the Association represented buyers, and consequently the graft, patronage and inequalities continued.

In 1951, a vote among tobacco farmers was authorized by the Ontario Minister of Agriculture to determine whether a farmer-controlled tobacco marketing board would be set up. The major tobacco companies put considerable effort into financing opposition to the proposed board, and the idea was defeated. In 1954, tobacco companies' influence increased when they were given half the representation on the Association's board of directors.[9] It was not until 1957 that a vote among farmers resulted in the creation of the farmer-controlled Ontario Flue-Cured Tobacco Growers' Marketing Board. This organization provided farmers with additional bargaining power, and an auction system was implemented which enabled farmers to gain higher prices. The Board also influenced acreage and production quotas on farmers' behalf.

By the 1950s, 99% of tobacco in Canadian cigarettes was grown in Canada.[10] In 1952, 135 million pounds (61,363,636 kilograms) of tobacco were grown in Canada. In 1953, Ontario tobacco acreage amounted to 95,896 acres (38,403 hectares).[11] Between 1961 and 1965, annual sales of Ontario flue-cured tobacco averaged 167,650,560 pounds (76,204,800 kilograms). In 1983, production reached a record 285 million pounds (129,545,455 kilograms).[12]

In 1993, Ontario's flue-cured tobacco sales were 155,675,520 pounds (70,761,600 kilograms).[13] In 1998, the Canadian tobacco crop amounted to 151 million pounds (68,492,448 kilograms), but by 2005 it had dropped to 85 million pounds (38,555,351 kilograms).

The 2007 tobacco crop came in at 32 million pounds (14,514,956 kilograms) and the 2008 crop is estimated to be even smaller at 20 million pounds (9,071,847 kilograms).[14]

The number of farmers declined over the decades. In the 1960s, there were an estimated 4,500 tobacco farmers.[15] Between 1981 and 1992, the number of flue-cured tobacco farmers in Canada decreased from 2,916 to 1,326.[16] By 2005, there were an estimated 680 producers remaining.[17] By 2008, there were between 500 and 600 active quota-holders remaining.

---

[9] IDRC, ibid
[10] IDRC, ibid
[11] ***Canada 1954: The Official Handbook of Present Conditions and Recent Progress***, Dominion Bureau of Statistics, Hon. CD Howe, Minister of Trade and Commerce, Ottawa, Ontario.
[12] **'Hostages' rally in tobacco belt**, by Pat Currie, Toronto Star, January 17, 2008
[13] IDRC, ibid
[14] "Tobacco crop to plunge in 2008", Monte Sonnenberg, Simcoe Reformer, December 19, 2007.
[15] "Canada's tobacco farmers battle hard times", Canadian Press, Friday, September 16, 2005. http://www.ctv.ca
[16] IDRC, ibid
[17] "Final year for Canada's tobacco farmers?", CBC News, September 18, 2005 http://www.cbc.ca/money/story/2005/09/17/tobacco_farmers20050917.html

Demise of Orderly Marketing in tobacco

Tobacco companies have traditionally relied on lowering their input costs as a way of bolstering profits. In the 1930s, the contract system of “barn-buying” referred to earlier was well-documented as a means of forcing farmers to compete with each other to drive down the farm-gate price of tobacco.

The introduction of the tobacco growers’ marketing board in the late 1950s and the implementation of the “Dutch Auction” or “reverse auction” did much to balance the scales in terms of economic power in the marketplace between growers and tobacco company buyers. The system removed the ability of the buyers to arbitrarily reward or penalize individual producers, and placed the emphasis completely on the quality of the plant offered for sale. The structure of the auction also provided an incentive for the tobacco buyers to offer fair prices for the quality of leaf they were seeking to purchase.

Under the Dutch Auction system, the Ontario Flue-Cured Tobacco Growers Marketing Board (OFCTGMB) allocates delivery opportunities for specific quantities and grades of tobacco (grading is based on the leaf position on the plant). Farmers deliver their specified quantities and grades several times during the late fall and winter months. The quantity they are able to deliver depends on their quota. The tobacco is packaged in bales, which are then placed on skids, and lined up on the warehouse floor in numbered spots. The buyers walk through the warehouse and assess the tobacco piles. There are no growers’ names on these skids, only unidentifiable numbers.

Later in the auction room, there is a price clock with a spot number below it. The clock goes from a high price down to a lower price. When a buyer wants that number’s lot at the price the clock hits, he presses his button to stop the clock. If the sold price is too close to the price at which the clock starts, the starting price goes higher. This method always assures the best possible price for the farmer. Companies have an incentive to bid early so they are not squeezed out of sales. Farmers can also reject the bid price several times.

The system worked well, for both farmers and tobacco company buyers, for decades. Behind the scenes, however, the large tobacco companies continued to work toward weakening this orderly marketing system. In 1990, the regulations of the Ontario Farm Products Marketing Act were amended to formalize the role of the Tobacco Industry Advisory Committee, which is comprised of 20 members, one of whom is the Chair of the Ontario Flue-Cured Tobacco Growers Marketing Board. The Ontario Farm Products Marketing Commission has two appointees on this committee, one of whom is designated as the Chair of the Committee. In addition, four members of the farmers’ marketing board are appointed.

However, farmers are always outnumbered on this Committee. There are ten representatives of tobacco companies, including Rothmans, Benson & Hedges Inc., Imperial Tobacco Canada Limited, JTI – Macdonald Corp, Simcoe Leaf Tobacco Company Limited, and Grand River Enterprises; as well as two members appointed by the Export Dealers Association, that make up the remainder of the Committee and, in effect, hold a majority. This Committee was created to "advise" the farmers' marketing board on issues such as crop size, price and deliveries, but critics suggest the Committee carries considerably more weight than its "advisory" role would suggest. Rothman's, Benson & Hedges Inc. stated in a letter to the Board on December 4, 2001 that "The mandate of the TAC is to operate a sound and viable industry."

It is important to point out that prior to 2003, many tobacco farmers were not carrying high debt loads. The requirement that farmers upgrade their tobacco kilns by replacing older combustion chambers was instituted in order to reduce the level of suspected carcinogens resulting from the burning process. The cost of these units – which ranged from $4000 to $7000 each - was partially reimbursed through a provincial program and quality incentive payments from the tobacco companies. However, because the burners were often located in older, wooden buildings, the installation of the new self-contained furnaces also necessitated far more extensive renovation and construction. The cost of these renovations and construction was paid for by farmers. They undertook these capital costs based on directives from the Tobacco Industry Advisory Committee, which stated the upgrades were necessary to secure the future of the industry for both domestic and export sales. The change to the new kilns also, in turn, necessitated changing their tobacco harvester systems, which further added to their debt loads. The market for Canadian tobacco went into freefall the year after these expensive conversions were implemented.

The introduction of direct contracts between the companies and individual farmers has been a source of conflict. A plebiscite among tobacco growers approximately four years ago resulted in a vote of 98% in favour of retaining the quota system and rejecting contracts. However, in the years since the plebiscite was held, the tobacco marketing board has complied with the companies' requests through the Tobacco Industry Advisory Committee to reduce the market value of quota, reduce the acreage requirements, and to endorse contracts. Quota values on the open market were at a high of $2.80 per pound. Official quota values are not available presently because the sale of quota has stopped due to price speculation and dealing by outsiders.

This has resulted in a quota exchange system that is non-functional. In addition, the cuts to quota acreage have been so severe that the estimate for this year is that producers will only be allowed to grow 7% of their quota.

Those producers who naively believe they would benefit under a contract system may actually welcome this situation, and indeed, some have purchased land and other assets from their neighbours who seek to exit the business. A contract system would result in a sharp drop in the number of farmers required to "between 50 and 100" in the space of a single season.[18] The return to a contract system, however, will mean a return to the 1930s. The experience of farmers who produce any commodity in a contract system with large companies has been the same, whether it is vegetables, hogs, chickens, fruit or any other food product. Contracting makes the farmer vulnerable to changing rules laid down

[18] "Tobacco crop to plunge in 2008", Monte Sonneberg, Simcoe Reformer, December 19, 2007.

by the corporation, and there is no security of income. Orderly marketing and supply-management systems – both in Ontario and nation-wide, were implemented by governments as a direct result of continual and widespread pressure from farmers themselves.

The weakening of the tobacco marketing board's supply-management system is a harbinger of what may happen to larger, national supply-management boards – such as dairy and eggs - which allocate production quotas. The failure of the government to stem the rising tide of imports severely undercuts the ability of the marketing board to match production supply to domestic demand. This same process is currently underway, to a more limited extent, in dairy and the feather sectors as a result of rising imports required under bilateral and global trade agreements.

The NFU believes that a return to a contracting system between farmers and tobacco companies will not benefit either farmers or the rural communities that have traditionally relied on tobacco production. On the contrary, handing over increased decision-making power to tobacco companies will aggravate the problem because these companies will implement strategies that boost their profit margins, with little or no regard for the local community. For example, Imperial Tobacco recently shut its plants in Aylmer and Guelph and moved operations to Mexico.[19] The real solution lies in ensuring that a fair and equitable exit program is implemented to ensure that tobacco farmers and their families are able to recover their investment in land, machinery and quota; retain their dignity in the face of a collapsing market; and pursue future opportunities.

Organic tobacco

While the negative health effects of tobacco are well-documented, and the public education campaign to decrease the market for tobacco is ongoing, the reality is that because tobacco is an addictive substance, there will continue to be a market – albeit hopefully a shrinking market - for tobacco within Canada for many years to come. The increase in the illicit tobacco trade is, in many ways, indicative of the large market in Canada for tobacco. During the upcoming transition period, as increasing numbers of tobacco farmers exit the industry, the potential exists for a niche market for organic tobacco to be created to benefit growers who specialize in that commodity. At the most recent NFU national convention in London, Ontario, the following resolution was adopted by delegates:

"WHEREAS there is a growing market for Organic tobacco Leaf, and
WHEREAS the Tobacco quota continues to decrease each year to the point that organic growers are unable to meet the demand for their products, and
WHEREAS as Organic tobacco farmers have formally asked the Ontario Flue Cured Tobacco Growers' Marketing Board to remove Organic Leaf from the current Quota and create a separate Organic Tobacco Quota and the Board refuses to consider it,

[19] "Ontario's tobacco farms: fighting a losing battle against imports and smuggling", Don Stoneman, Better Farming Magazine, June, 2007. www.betterfarming.com/2007/june/cover.html

THEREFORE BE IT RESOLVED the NFU strike a committee to prepare an appeal to the Ontario Farm Products Marketing Commission to intervene and separate Organic tobacco from the current conventional tobacco quota and establish a separate quota for Organic Tobacco."

Imports and contraband tobacco exacerbated the problem

Over the past decade, governments in Canada have invested several hundred million dollars in tobacco control. However, there has been little in the way of coordinated efforts between Health Canada and Agriculture and Agri-Food Canada to cushion the impact on farmers resulting from the strategy to promote public health.

In addition, while Canada is a signatory to the World Health Organization Framework Convention on Tobacco Control, the federal government has failed to adequately meet one of the most important "guiding principles" under Article 4 of the framework. Principle #6 of the WHO framework states: "The importance of technical and financial assistance to aid the economic transition of tobacco growers and workers whose livelihoods are seriously affected as a consequence of tobacco control programs in developing country Parties, as well as Parties with economies in transition, should be recognized and addressed in the context of nationally developed strategies for sustainable development."[20]

While it is true that Canada's commitment to reducing tobacco consumption domestically and internationally is a factor in the shrinking tobacco market, there are other pressures that have actually contributed more to the demise of legitimate tobacco production in southern Ontario.

The system of supply-management for tobacco in Canada was undermined primarily by the lack of border controls on raw tobacco coming into this country, and the lack of a cost-of-production formula (as in dairy and poultry). "Since the year 2000, tobacco companies bought less tobacco in Canada and imported more. Domestic consumption appeared to fall while reports signal that contraband cigarette production and distribution are on the rise. Crop sizes shrank rapidly as cigarette makers replaced domestic leaf with imports. Estimates indicate that 23% of total tobacco sales – or one in four cigarettes - in Ontario and Quebec consist of contraband tobacco.[21]

The WHO Framework acknowledges the major impact of illicit tobacco smuggling. Article 15.1 states: "The Parties recognize that the elimination of all forms of illicit trade in tobacco products, including smuggling, illicit manufacturing and counterfeiting, and the development and implementation of related national law, in addition to sub-regional, regional and global agreements are essential components of tobacco control."[22]

---

[20] World Health Organization (WHO) Framework Convention on Tobacco Control, 2003, Geneva, Switzerland, ISBN 92-4-159101-3
[21] Better Farming Magazine, June, 2007, ibid
[22] WHO Framework Convention on Tobacco Control, World Health Organization, 2003, Geneva, Switzerland ISBN 92-4-159101-3

The growth in illegal tobacco smuggling and other contraband activities has not only shut down a legitimate market for Canadian tobacco producers, it has created and aggravated social and economic costs on many other fronts. A report by the Royal Canadian Mounted Police in 2008 noted that there is "increased involvement of organized crime implicated in illegal tobacco activities for monetary gain." It also stated that "profits from illegal tobacco products are also funding other criminal activities, such as drug and gun trafficking."[23] The report notes that "contraband tobacco originates from both domestic and international activities. The current trend of manufacturing, distributing and selling contraband tobacco products, which has developed exponentially over the last six years, involves organized crime networks exploiting Aboriginal communities." The report notes that an illegal tobacco manufacturing and distributing operation evading all federal and provincial duties and taxes can sell its product for as little as $6 for 200 cigarettes (equal to one carton), while legitimate tobacco products are sold for $75 to $90 for one carton.

The RCMP report indicates that the largest source of tobacco smuggled into Canada originates on the US side of the Akwesasne and Kahnawake reserves in Quebec and the Tyendinaga and Six Nations in Ontario. Other criminal activity associated with contraband tobacco involves increasing incidences of break-ins of convenience stores in large metropolitan centres and intimidations and robberies of long-haul truck drivers carrying tobacco products. The report indicates the number, frequency and incidence of violence associated with these events is increasing – an indication of the strong involvement of organized crime.

The reality is that the market for tobacco in Canada has not declined in size, it has effectively gone underground. Unfortunately, family farmers who have grown tobacco for many generations are bearing the financial cost of this shift.

Article 22.1 (b) of the WHO Framework calls on national governments to assist "tobacco workers in the development of appropriate economically and legally viable alternative livelihoods in an economically viable manner; and assisting, as appropriate, tobacco growers in shifting agricultural production to alternative crops in an economically viable manner."[24]

The consequences of continuing to allow a flood of imported tobacco into Canada, while failing to provide adequate financial resources to facilitate a buy-out of tobacco farmers are numerous. They include: encouraging developing countries to become even more dependent on tobacco as an export crop; contributing to deforestation in developing countries; facilitating increased child and slave labour in tobacco production in developing countries; facilitating deregulation of tobacco standards internationally and contributing to the increase in global trade of highly-toxic products; and encouraging importation of so-called "value-brand" tobacco produced from imported supplies.

[23] "Contraband Tobacco Enforcement Strategy", Royal Canadian Mounted Police, 2008.
[24] WHO Framework Convention on Tobacco Control, WHO 2003, Geneva Switzerland

Solutions: Exit strategy and quota buy-out plan

The National Farmers Union recommends that the federal government implement an immediate plan that treats farmers with dignity and respect and provides for an orderly phase-out of tobacco, with a minimum of economic dislocation and hardship.

NFU policy recognizes that over the long-term, tobacco production is neither a viable or desirable option for family farmers in southern Ontario. The declining size of the annual crop, the increasing economic strength of the multinational tobacco companies operating in Canada, the failure of the government to impose import controls, and the rapid increase in the sale of illicit tobacco have all worked to undermine the ability of the supply-management system to ensure fair prices for tobacco producers. As outlined earlier, a return to the "barn-buying" system of individual contracts between tobacco growers and corporate buyers would not benefit producers or their communities.

A plan for a complete buy-out of tobacco quota in Ontario must be implemented. The price paid to farmers for their quota should be $3.30 per pound, a figure which reflects estimated costs for quota holdings, equipment[25], lost earnings and loss in land values.[26] Funding for the buy-out plan would come from a specific levy on the sales of all tobacco products in Canada – including those manufactured in Canada and those imported as finished goods.

Presently, tobacco manufacturers in Canada enjoy annual profits of more than $1 billion, and it is not unreasonable to implement a program that channels a portion of that profit to facilitate the exit of family farmers from tobacco production. Such a program, however, would also necessitate stronger enforcement of laws regulating imports of tobacco products, with specific measures aimed at controlling the rapid rise in contraband and illegal tobacco imports.

Previous programs aimed at partial buy-outs of tobacco quota have proved unsuccessful. In the late 1980s, the "Redux" program was implemented, through which the government bought 25 percent of a grower's quota and the rest was sold on the open market. This resulted in the collapse of quota prices from over $2 a pound to 30 cents a pound, and hampered future buy-out programs.[27] Later programs – which together cost about $15

---

[25] Recently, tobacco producers were required to upgrade their kilns and other expensive equipment. This equipment is not convertible to use in other agricultural commodities.

[26] "**Eliminating Tobacco Production in Canada: A proposal from the Ontario Flue-Cured Tobacco Growers' Marketing Board**," March 2006. The calculation of $3.30 per pound is contained in the report prepared for the Tobacco Board by the accounting firm of Good, O'Donnell and Redden. The report estimates that after quota transfers associated with the TAAP program are complete, there will be 271,806,612 pounds of Basic Production Quota held by Ontario tobacco producers. This would require a total payment for the exit program of $897 million in 2006 dollars. The report also suggests a negotiated payment for "sharegrowers" who split expenses and returns with quota holders, but does not put a specific figure on such a payment.

[27] **Ontario Tobacco Farms fighting a losing battle against imports and smuggling**, Don Stoneman, Better Farming, June 2007.

million - included the Alternative Enterprise Initiative, which relied on federal and provincial funding to start farm-run co-ops; and the Tobacco Diversification Program, which studied alternative market development options. Neither program produced long-term solutions. The Tobacco Adjustment Assistance Program (TAAP) was introduced in 2004, and provided assistance for producers who stayed in tobacco production, but the program failed after one year because of the rise in imported tobacco used by manufacturers. A total of $63 million was also earmarked by the federal government to purchase quota from farmers wanting to exit the industry, but the "reverse auction" method encouraged farmers to bid low to get the government to buy their quota. Critics pointed out the program "was designed to get the maximum number of farmers out of the business for the fewest tax dollars."[28] A later contribution by the Ontario government of $35 million added to the buy-out fund, but the price received by the 250 Ontario farmers who ended up exiting the business amounted to only $1.72 per pound, and only 50 million pounds, out of a total of 300 million pounds of tobacco quota, was retired from the system. Hundreds more of Ontario's tobacco farmers are faced with no choice but to exit the industry, and it is critical that a comprehensive and fair buy-out program be implemented immediately.

It is important to point out that in the United States, a package of short-term and long-term assistance for tobacco farmers to exit the industry was implemented beginning in 2001 following the report of a US President's Commission on Improving Economic Opportunity in Communities Dependent on Tobacco Production while Protecting Public Health. This report recognized the links between promoting public health and mitigating the economic consequences for tobacco farmers and their communities. Farmers in the United States received $10.00 per pound over 10 years. Tobacco Farmers in Crisis calculated that the equivalent one-time value of Canadian Quota would be $4.18 per pound based on the differences between the two systems.

Conclusion

For many decades, the production of tobacco in Ontario has been a valued component of Canada's agricultural industry. The wealth generated by these activities have benefited farm families and rural communities, but by far the greatest beneficiaries have been governments – which have received many billions of dollars in taxes - and large tobacco companies – which have consistently made many billions of dollars in profits.

The decline in the domestic tobacco production sector in Canada has had a dramatic and devastating impact on hundreds of farm families, but has resulted in no major reduction in the market demand for manufactured tobacco products. Indeed, the market is now being increasingly filled by illicit, counterfeit and imported tobacco supplies. This illicit trade has ties with organized crime organizations – a fact which has been confirmed by the Royal Canadian Mounted Police in a major report released earlier this year.

[28] Better Farming, June 2007, ibid

Any effort to promote a health policy aimed at reducing smoking in Canada must also include increased enforcement efforts designed to curb the illegal trade in tobacco, as well as the implementation of an immediate program to fairly compensate displaced tobacco farmers. Such a program must treat farmers with dignity and respect and provide for an orderly phase-out of tobacco, with a minimum of economic dislocation and hardship.

The NFU recommends tobacco farmers be bought out at a price of $3.30 per pound for their quota.

The funds required to finance the exit program would be raised through enforcement efforts aimed at recovering the $1.5 billion in taxes lost each year to contraband tobacco sales, and by imposing an additional surtax on cigarette companies' profits.

All of which is respectfully submitted
by the
National Farmers Union