



**IMPERIAL TOBACCO  
CANADA**

# **Tobacco Product Illicit Trade Phenomena**

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## **National Study For Imperial Tobacco Canada**

**GfK Research Dynamics**

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## The GfK Group:

- Founded in 1934
- 4<sup>th</sup> largest research company in the world.
- Operates in 91 countries worldwide.
- Provides market research to a vast array of clients in various sectors including packaged goods, financial, automotive, pharmaceutical and many others.



# Objectives

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- **Establish incidence and relative share of illicit Tailor-Made (TM) cigarettes in Canada among 5+ cigarettes per day 19+ TM smokers.**
- **To understand consumer awareness, and purchase patterns of illicit trade.**
- **To provide meaningful information on illicit trade phenomena to governments and other stakeholders.**
- **Definition of Illicit (in terms of this study):**
  - **Duty Not Paid – manufacturing and selling of cigarettes/tobacco from individuals who are not paying appropriate government taxes and duty.**



# Methodology

## ■ Pack Swap methodology:

- Telephone recruit with a 30 minute in-home interview
- All TM Smokers 19+, 5+ Cigarettes per day consumption
- Sample representative of age, gender, and household income distribution (random cluster sample with birthday selection process in various centres across each region).
- After initial part of in-home interview, respondents were invited to allow interviewers to take with them their current cigarette pack and product. Packs/sticks collected were forwarded to ITCAN for analysis.
- Interviewing was completed in May and June, 2006.



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# **New Information on Illicit Trade Findings**



# A Solid and Credible Data



Imperial Tobacco Canada is one of only a handful of companies who have conducted this kind of meticulous and detailed survey

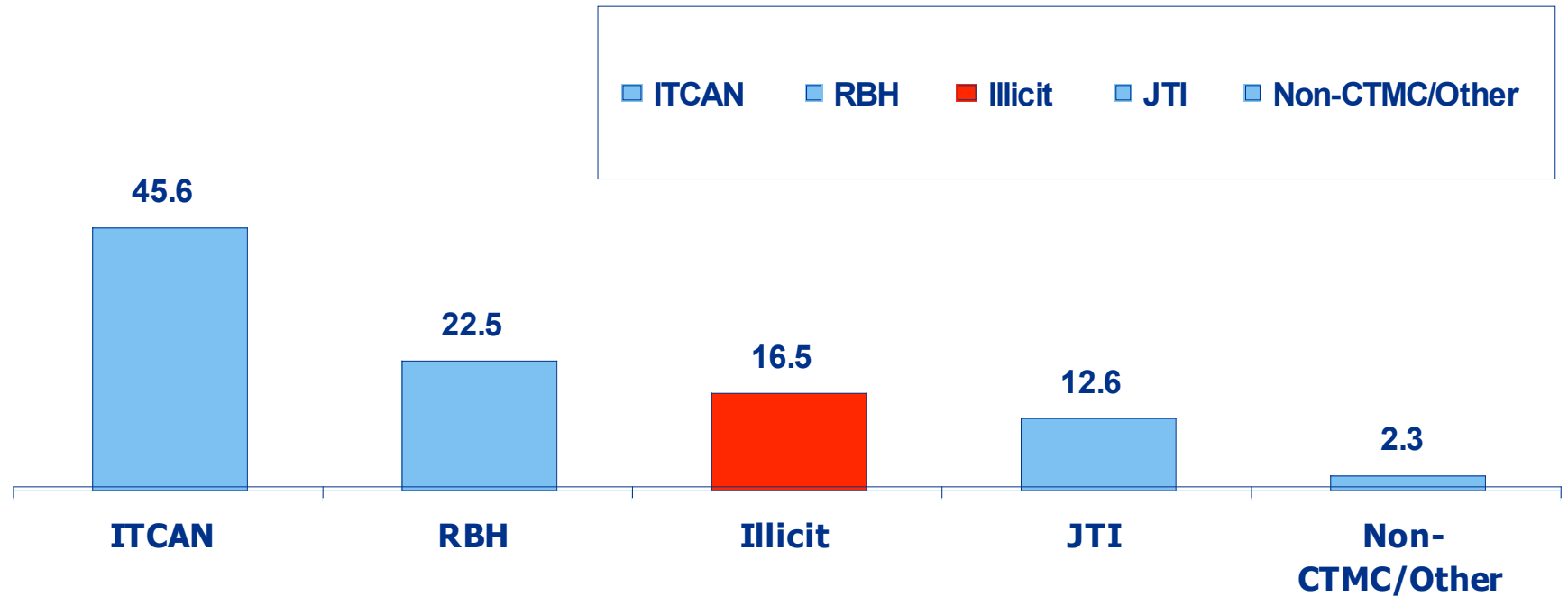
- Innovative design
  - Pack Swap methodology (blind concept)
- True representation
  - 2,300 adult smokers (19 years of age and older) across Canada
- High confidence
  - Sample error at 95% confidence provides a +/- 2.2% sampling error



# The Legitimate vs. Illicit Markets



On a national scale the illicit trade ranks as the third largest competitor of tailor-made cigarettes

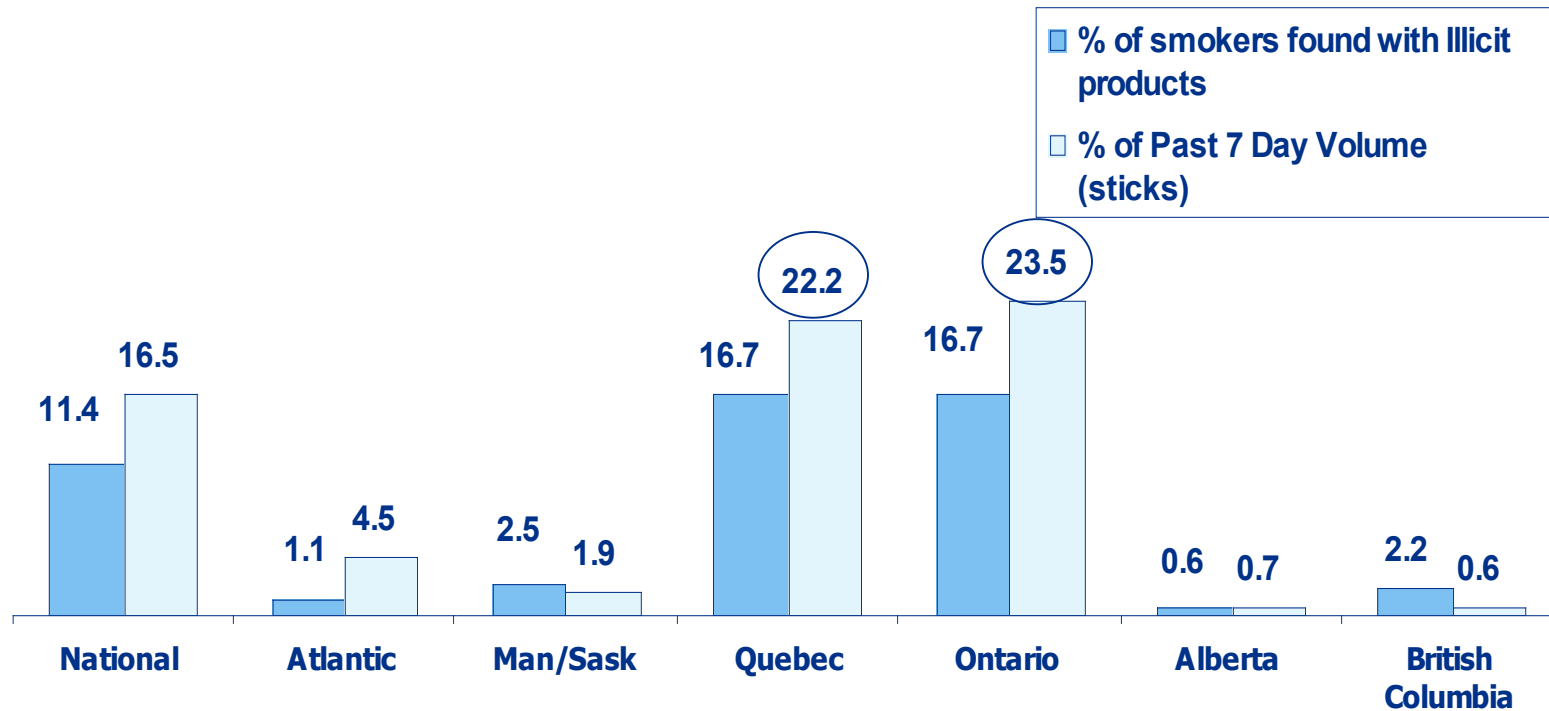




# The Results



Almost one out of every four cigarettes smoked in Ontario and Quebec is illicit





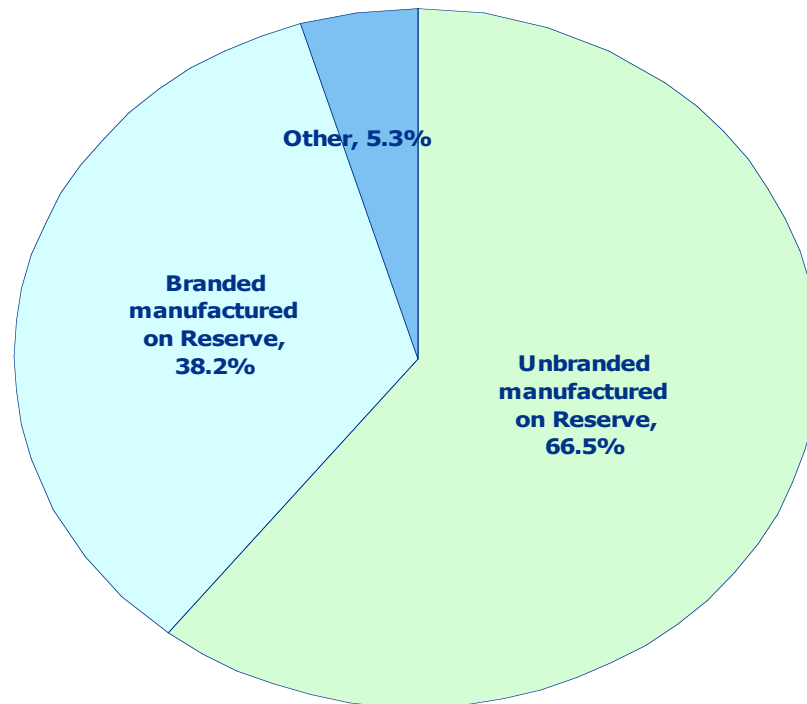


# Branded Illicit vs Unbranded



**66.5% of illicit cigarettes identified are unbranded (The Ziploc Fact)**

**At least 95% of illicit cigarettes identified were manufactured on Reserve**

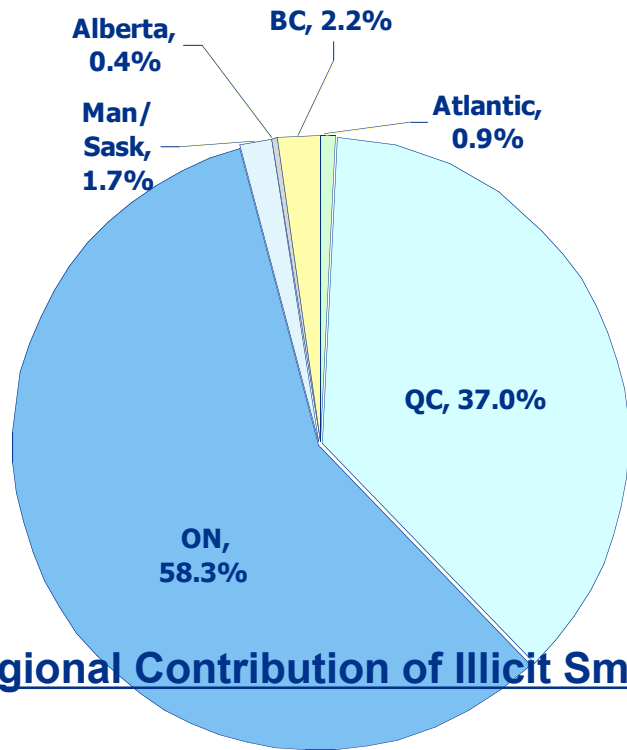




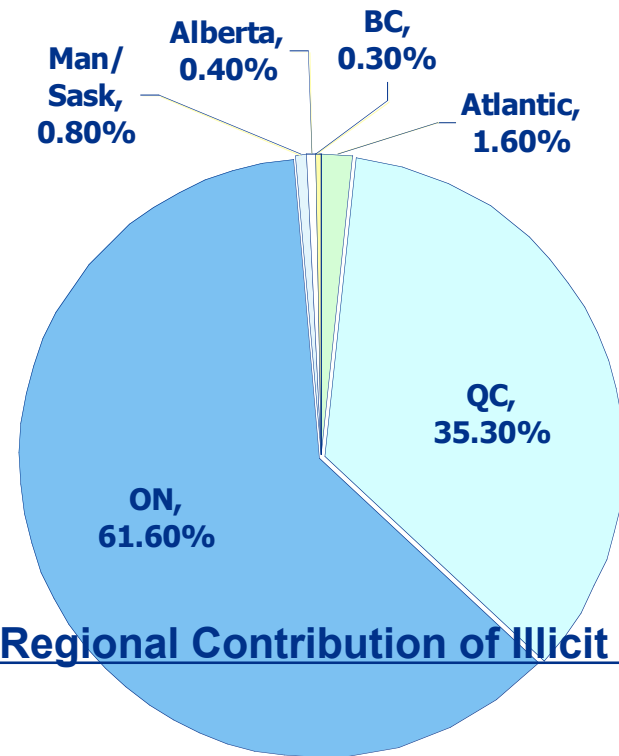
# Illicit by Province



96.9 percent of illicit volume is concentrated in Ontario and Quebec



Regional Contribution of Illicit Smokers



Regional Contribution of Illicit Volume

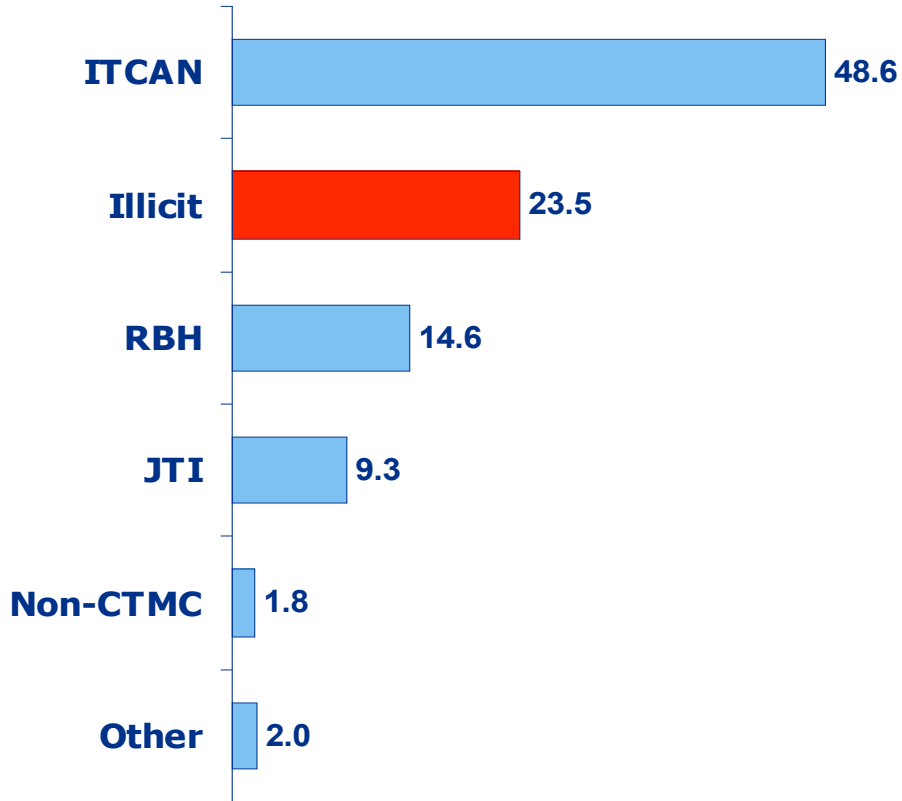


# Ontario and Quebec

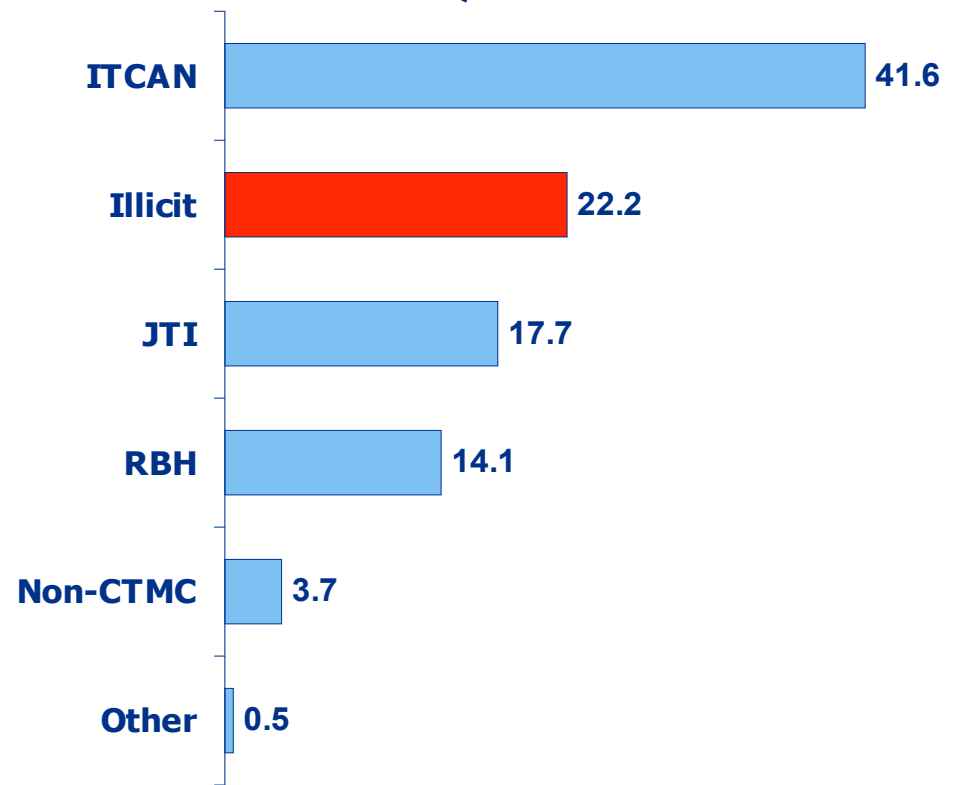


Illicit brands are the second largest competitor in Ontario and Quebec.

## Ontario



## Quebec

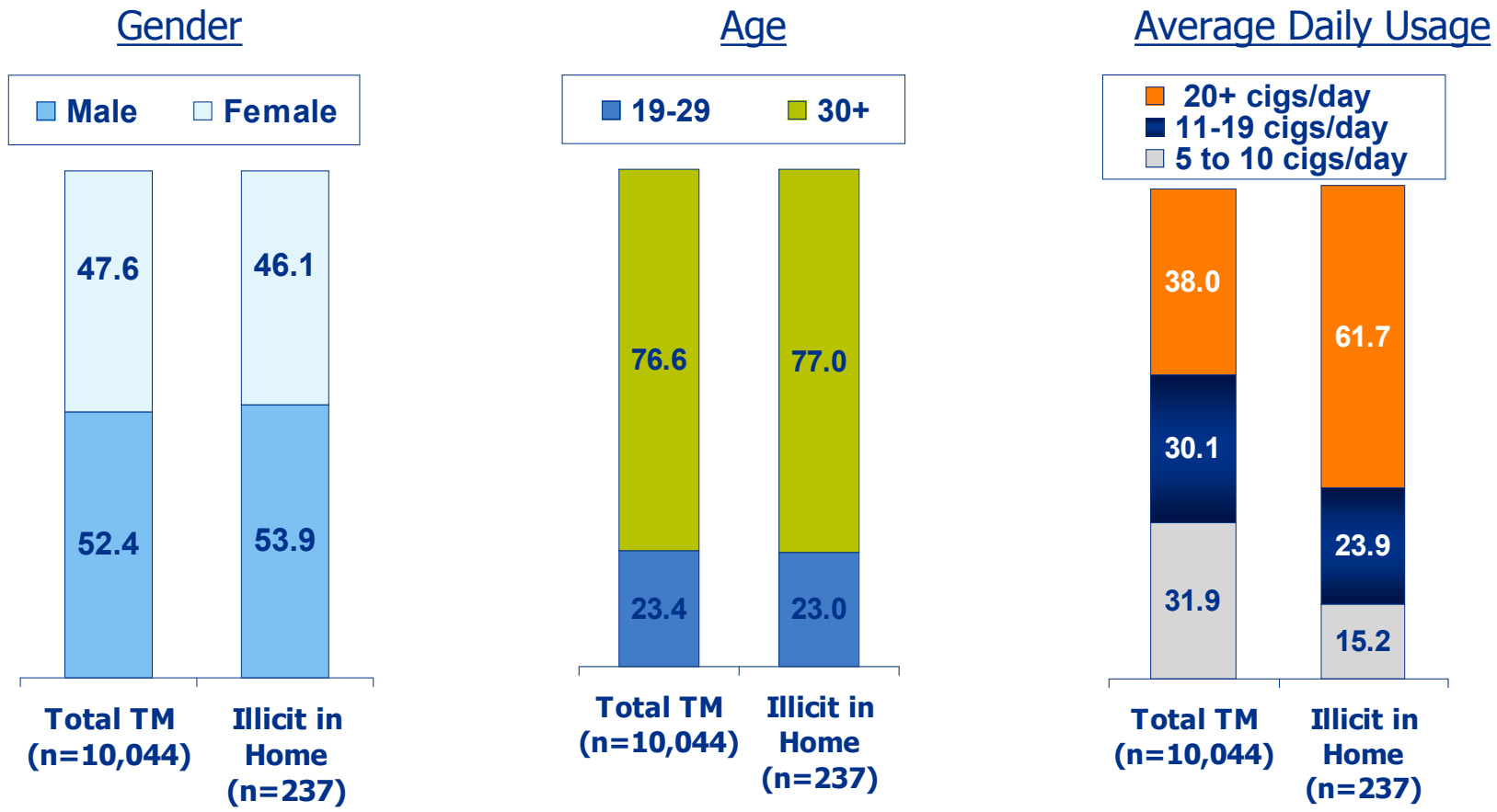




# Who Smokes Illicit Cigarettes?



Illicit users have a similar age and gender profile to smokers in general but are much heavier cigarette users.

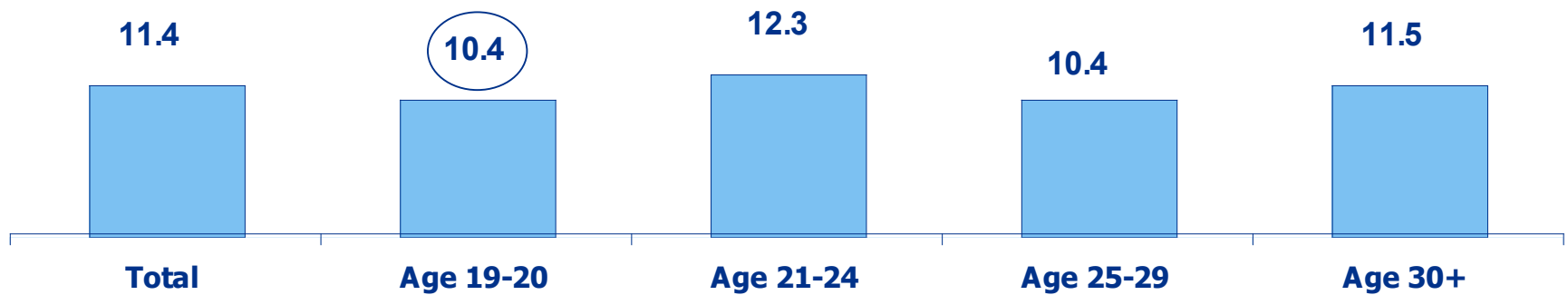




# Age Doesn't Matter



This study did not include anyone under 19 years of age; however, ease of access and price make illicit tobacco attractive to young people.

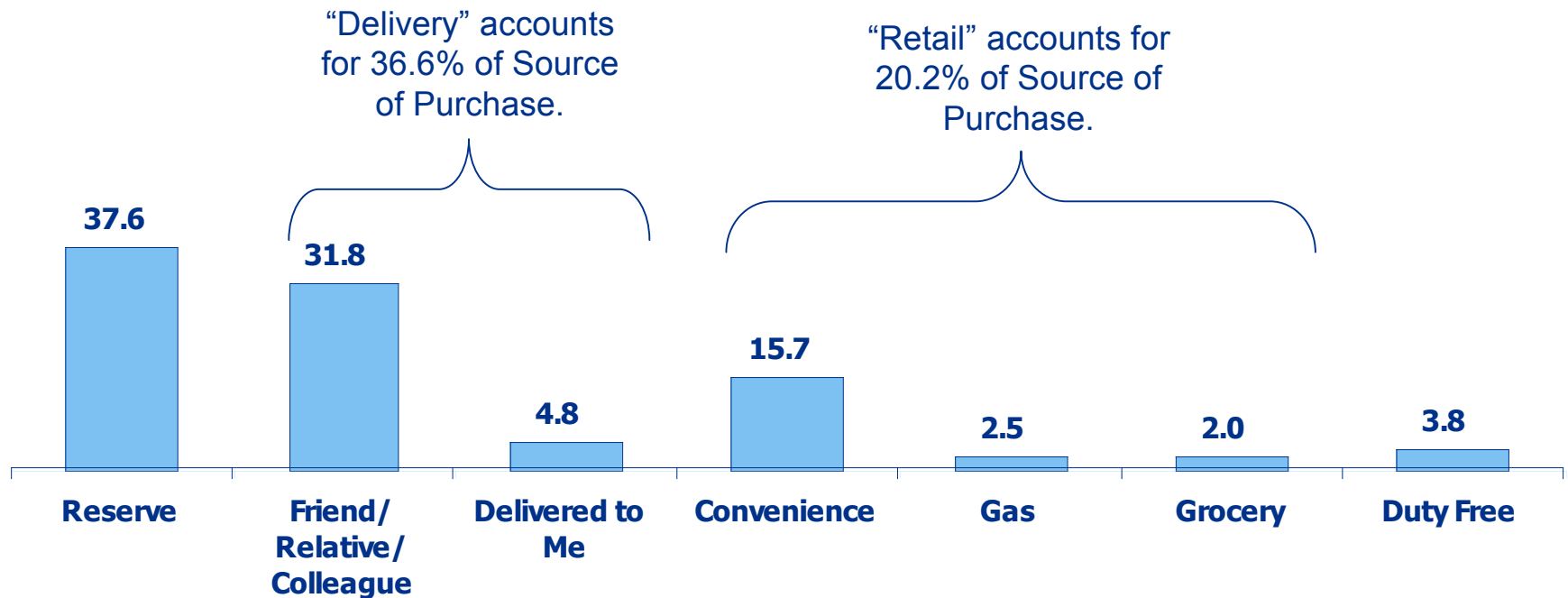




# Where Do Canadians Buy Illicit Tobacco Products?



Illicit cigarettes are easy to buy. The source of purchase outside reserves accounts for almost two thirds of the total sources of purchase.





# Why Should Canadians Care?



- There are thousands of Canadians, both young and old, who are not getting a highly regulated and controlled tobacco product.
- Illegal cigarettes **do not have to comply** with the **strict regulations** that apply to the rest of the tobacco industry with regards to health warnings, to ingredients, to toxic emissions' information or to low ignition propensity criteria.
- Total annual **losses to government** (federal and provincial) amount to \$1.5 billion.
- Cigarettes are being sold at “**pocket money**” prices: \$20 per illicit carton vs. \$50 - \$70 per legal carton
- The criminal networks involved in the illicit cigarette market also traffic in **drugs, firearms and alcohol**.



## It's Only Going to Get Worse



- By 2010, illicit tobacco is projected to make up more than 25 percent of the total tobacco market in Canada.
- Government inability to curb illicit tobacco is going against public health policies
- Based on internal Imperial Tobacco Canada calculation estimates, the current average annual decline in tobacco use is only 2 percent per year.
  - 75% of the decline in legal tobacco product sales is transferred to the illicit sales.