Tobacco Product Illicit Trade Phenomena

National Study
For Imperial Tobacco Canada

GfK Research Dynamics

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The GfK Group:

- Founded in 1934
- 4th 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

- 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.
New Information on Illicit Trade Findings
A Solid and Credible Data

- 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.

<table>
<thead>
<tr>
<th>Market</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>ITCAN</td>
<td>45.6</td>
</tr>
<tr>
<td>RBH</td>
<td>22.5</td>
</tr>
<tr>
<td>Illicit</td>
<td>16.5</td>
</tr>
<tr>
<td>JTI</td>
<td>12.6</td>
</tr>
<tr>
<td>Non-CTMC/Other</td>
<td>2.3</td>
</tr>
</tbody>
</table>
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

Regional Contribution of Illicit Smokers

Regional Contribution of Illicit Volume

96.9 percent of illicit volume is concentrated in Ontario and Quebec
Ontario and Quebec

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

Ontario

- ITCAN: 48.6%
- Illicit: 23.5%
- RBH: 14.6%
- JTI: 9.3%
- Non-CTMC: 1.8%
- Other: 2.0%

Quebec

- ITCAN: 41.6%
- Illicit: 22.2%
- JTI: 17.7%
- RBH: 14.1%
- Non-CTMC: 3.7%
- Other: 0.5%

Note: The percentages indicate the market share of each category.
Illicit users have a similar age and gender profile to smokers in general but are much heavier cigarette users.

### Gender

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total TM</td>
<td>52.4</td>
<td>47.6</td>
</tr>
<tr>
<td>Illicit in Home</td>
<td>53.9</td>
<td>46.1</td>
</tr>
</tbody>
</table>

### Age

<table>
<thead>
<tr>
<th></th>
<th>19-29</th>
<th>30+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total TM</td>
<td>76.6</td>
<td>23.4</td>
</tr>
<tr>
<td>Illicit in Home</td>
<td>77.0</td>
<td>23.0</td>
</tr>
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</table>

### Average Daily Usage

<table>
<thead>
<tr>
<th></th>
<th>20+ cigs/day</th>
<th>11-19 cigs/day</th>
<th>5 to 10 cigs/day</th>
<th>5 to 10 cigs/day</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total TM</td>
<td>38.0</td>
<td>31.9</td>
<td>23.9</td>
<td>15.2</td>
</tr>
<tr>
<td>Illicit in Home</td>
<td>61.7</td>
<td>30.1</td>
<td>23.9</td>
<td>15.2</td>
</tr>
</tbody>
</table>
This study did not include anyone under 19 years of age; however, ease of access and price make illicit tobacco attractive to young people.
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.