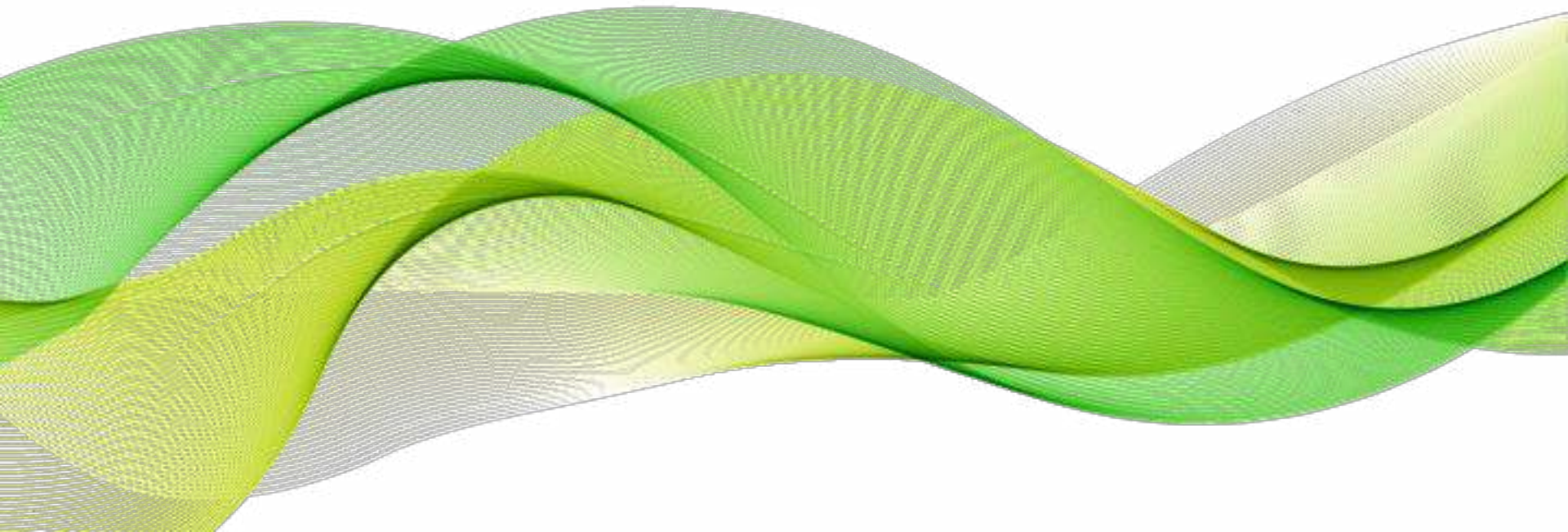




MEMBER SURVEY RESULTS

Impact of illicit market “shut down” on convenience store tobacco sales

Summer 2020



Ontario Convenience Stores – Illicit Tobacco Survey Response

Between June 2 and June 30, 2020 the OCSA conducted a survey of its 6,000 members to understand how the impact of the “shut down” and the inability for Ontarians to source their tobacco from on-reserve retailers would have on their stores. The key findings of the survey revealed the following:

- ✓ **Dramatic increase in legal channel tobacco sales** – convenience stores throughout Ontario showed an increase in tobacco sales between 10% to over 30%;
- ✓ **Proximity to a reserve played little role** – sales increased across the board, irrespective of the store’s proximity to a reserve. Almost half of the stores surveyed (46%) were over 30 kilometers from the closest reserve;
- ✓ **Independent stores most impacted** – 80% of the retailers who responded were independent, family owned and operated stores who are subject to a small 5-10% margin on their tobacco sales;
- ✓ **Geographically agnostic** – respondents were relatively evenly distributed between GTA, Southwestern Ontario, Eastern Ontario and Northern Ontario, with each region reporting a similar surge in legal tobacco sales.

Project Overview

The objective of the OCSA tobacco survey was to evaluate the challenges created by conditions around COVID 19, contraband, inspection and tobacco industry in respect to customer sales, margins and fairness.

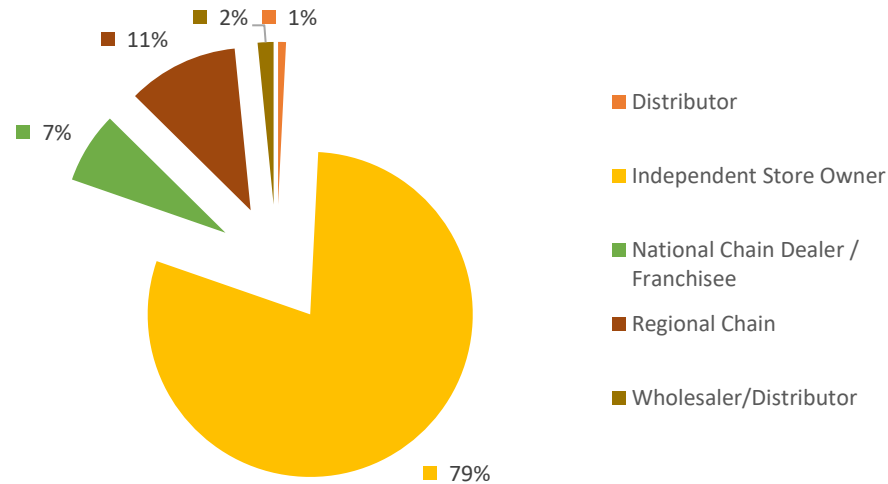
With indigenous reserves voluntary closing during the pandemic, this created a great opportunity to understand the potential legal volumes for family run businesses in Ontario.

There are approx. 6000 independent C stores & regional chains in Ontario and the responses represented 1234 locations from all four regional areas: Southwest, Northern, Eastern and GTA from 132 submissions that included 4 tobacco distributors & 14 regional chains.

The aggregate of the responses was strong with a 20% response rate with over 90% of respondents also offering comments on how to improve the legal tobacco business in Ontario.

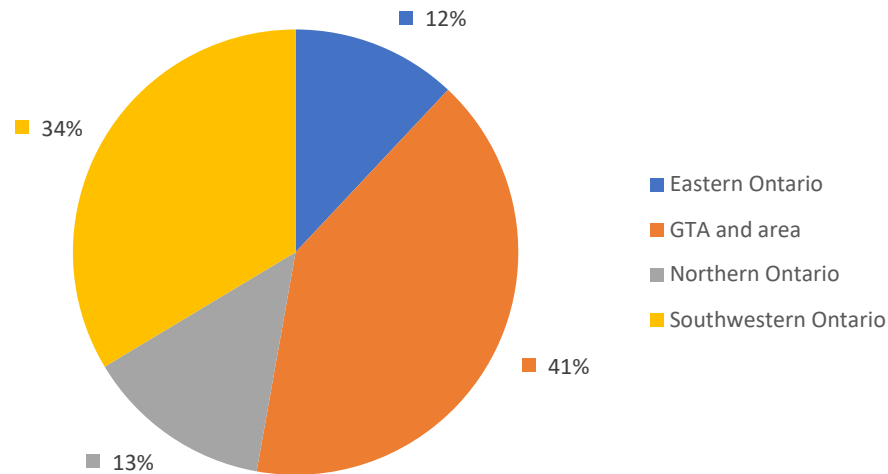
Note: The OCSA does not take funding from any tobacco company.

Type of Convenience Store



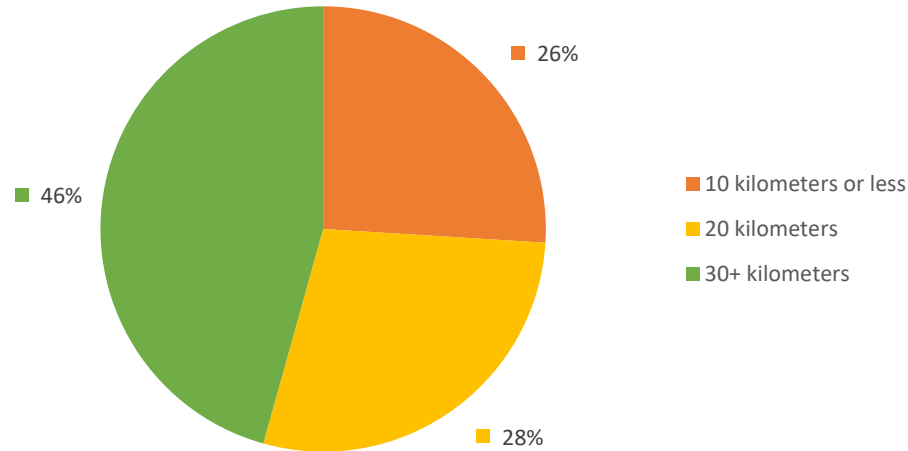
Strong representative with 79% of respondents from family run independents

General Location of the Stores



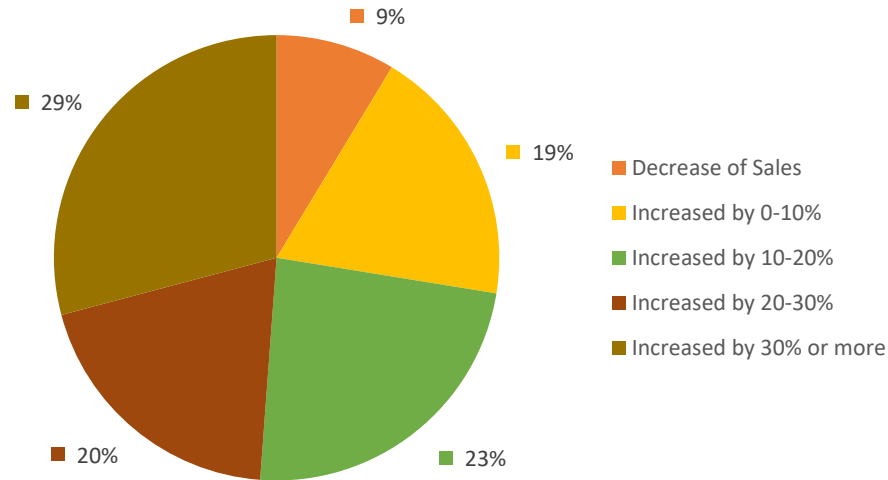
Balanced response from all four regions with the majority of responses from GTA stores and Southwestern Ontario

Proximity to Aboriginal Reserves



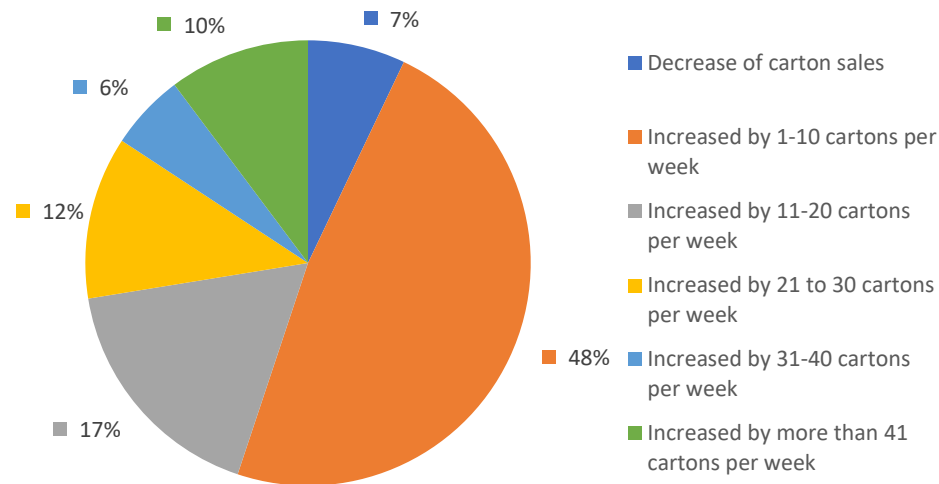
Very representative of the distances every community is from reserves and the impression that consumers have easy access to untaxed tobacco products in Ontario, no matter how close or far they are from reserves.

Tobacco Dollar Sales During Covid-19



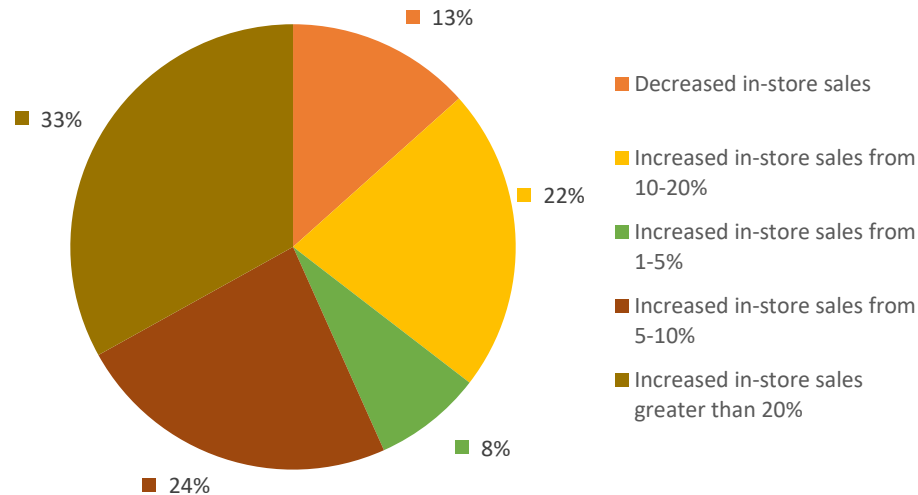
Convenience stores throughout Ontario showed an increase in tobacco dollars sales between 10% to over 30% in 72% of all locations in Ontario.

Tobacco Carton Sales During Covid-19



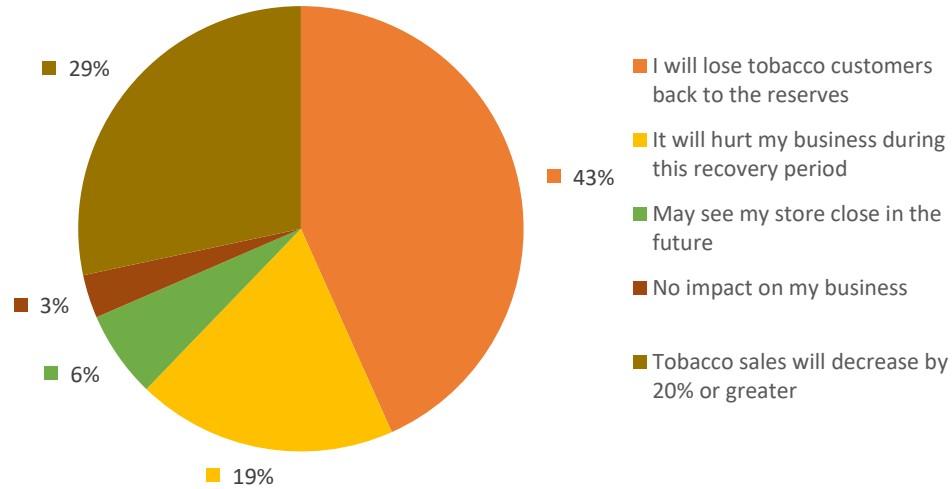
48% of all locations showed a unit increase of 10% in weekly sales with an additional 17% selling 11- 20 cartons during this period.

Total In-Store Sales (all products)



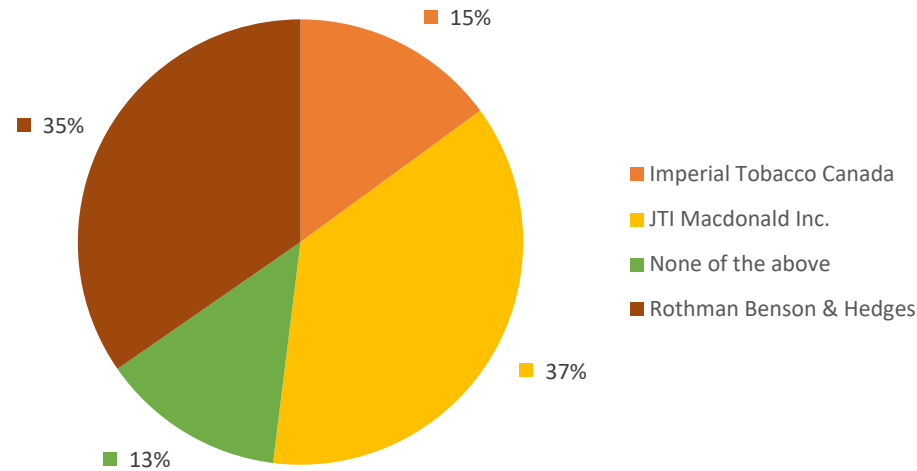
57% declared in stores sales of all products were up between 5% to greater than 20+% realizing tobacco purchasers were also buying high margin impulse items.

Anticipated Impact When Reserves Reopen



43% believe their legal tobacco sales will go down by 20% or greater with an additional 29% will lose their regular tobacco customers returning to the reserves for untaxed cheap tobacco.

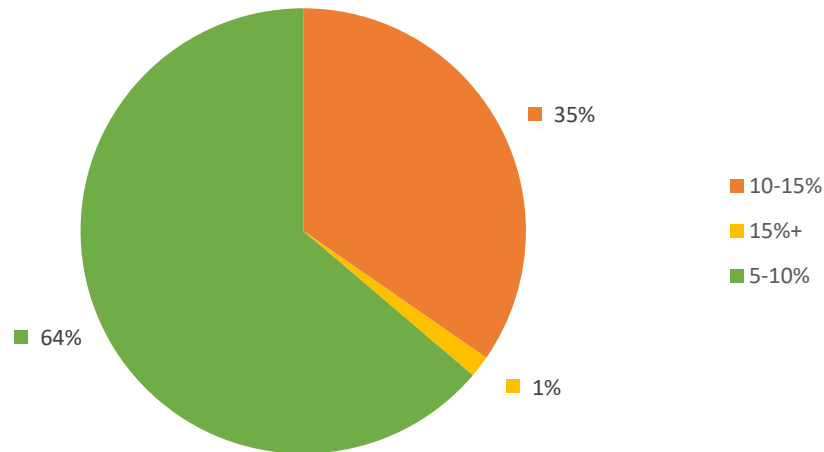
What Tobacco Company do you Respect the most from a Business Relationship?



A balanced response for both JTI and R/BH by the majority of respondents with most independents concerned about the business relationship with Imperial Tobacco (BAT) and could be due to the programs and potential unfairness of independent versus national chains.

Worth looking into and exploring more. 13% have no respect for the industry and also worth understanding going forward.

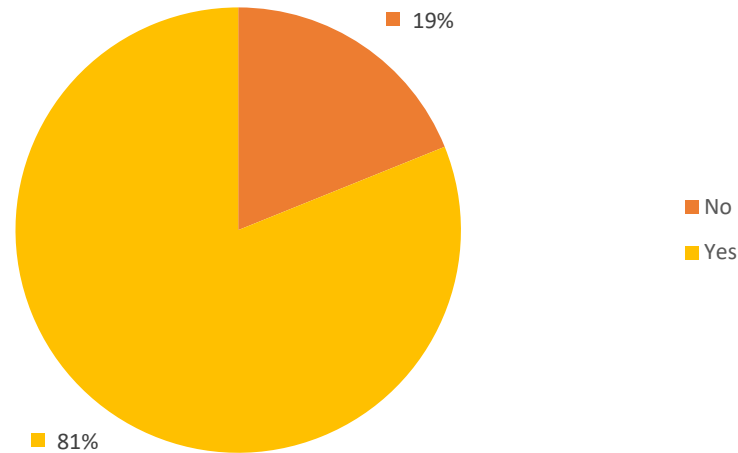
What Margin are you Making on the Sale of Legal Cigarettes?



64% of all stores surveyed make less than 10% selling, inventorying and handling tobacco with pressures on pricing by the tobacco industry.

This is mainly targeted toward family run independent while regional chains make a higher margin thus creating this unlevel playing field for the majority of convenience stores.

Are You Being Regularly Inspected by the Ministry of Finance?



In the majority of responses tobacco inspectors were respectful of the small business operators during the required inspection process and over time (like all inspections), the c-store will not be the tax problem due to reserve production and influences.

Highlights of Retailer Comments

The OCSA received over 100 comments from engaged retailers on suggestions to correct contraband in their communities. We have chosen a few highlights below:

" We noticed an immediate increase in overall tobacco sales when reserves closed. It was obvious how many smokers were buying from the illicit market. The OPP and Municipal police forces should have more access to the illicit trade in order to enforce these illegal enterprises."

"Contraband tobacco kills my business and family. Government recognizes how contraband affects the convenience stores though they allow small businesses to close and government taxes decrease. Government must make strong regulations to stop the flow of illegal tobacco to my community."

"I believe if the government can restrict non natives from going to reserves and buying tobacco, Ontario as well as Federal taxes will increase. It is also a health issue as reserve production is not a regulated entity with no industry standards during the production process."

"It is the law and this special period has provided proof to all, the tax revenue that has been lost due to contraband tobacco. Government inspects retailers regularly and why don't they enforce the laws and retain the revenue? Enforcing the law is their responsibility and that's all we ask"

"Reserve tobacco should not be easily accessible to non reserve residents. More control over sales to non indigenous people as we lost over 25% of our tobacco sales. Customers openly tell us they go to reserves because of the constant price increases by [tobacco] companies (2-3 times a year) encouraging our customers to source alternative cheaper cigarettes. We need better controls over reserve tobacco sales and this will definitely help small retailers"

Areas for Further Study and Collaboration

Based on the data collected as part of this survey, there appears to be a clear correlation between First Nations reserves, their illicit tobacco stores, and the diversion of consumers from legitimate sales channels. The following are areas that the OCSA and their members would recommend government continue their work on:

- **COMPREHENSIVE GOVERNMENT STRATEGY** - the survey demonstrates a need to work with the Ontario government to develop a tobacco strategy from pricing, formats, promotions and incentives to protect small businesses as well as governments health policies;
- **ENFORCEMENT** – draw on success of Quebec approach to contraband tobacco to empower law enforcement;
- **EDUCATION AND AWARENESS** – work with the OCSA and their members to promote education of the dangers of illicit tobacco in-store (poster campaigns, brochures, electronic advertisements, etc.). This work could be funded by large tobacco companies;
- **TRAINING FOR RETAILERS** – in conjunction with the retail industry, develop a universal, mandatory training and certification program (similar to Smart Serve) to educate retailers and store-owners on the public health impacts of illicit tobacco, as well as its economic impact, and the legal risk to themselves and their businesses should they get caught retailing illicit products.