



Proposal to Assist the Frontier Duty Free Association (FDFA) with a Long-Term Government Relations Plan

Overview

The seemingly never-ending campaign by governments to eradicate the tobacco industry poses a direct threat to the duty free industry. However, it is also an opportunity to re-engage the Federal Government to plan a long-term future for the industry, using it to advocate for a range of new business opportunities that remind decision-makers why the industry was established in the first place: to repatriate sales that Canada was losing to the U.S.

Temple Scott Associates (TSA) is proposing a multi-step, long-term plan to renew its relationship with FDFA and position the duty free industry for significant growth and new business opportunities over the next decade.

About Temple Scott Associates

Founded in 1990, Temple Scott Associates is an independently-owned, fully-integrated public affairs company. We specialize in developing and merging communications with creative government relations solutions, effective crisis management, harnessing traditional and social media, and navigating complex regulatory and legislative files. Our clients include public sector entities, innovative start-ups, Fortune 100 and 500 companies, trade associations, professional bodies and not-for-profits.

Our existing clients range from some of the largest companies in the world, like Mastercard, Emirates Airline, Citi, Imperial Tobacco and Capital One, to industry associations of varying sizes, large and small institutions like universities and municipal governments, and small start-ups.

TSA has three decades of government relations success and has consistently maintained some of the longest client retention rates in the business over that period. We are sharply focused on client needs and fully invested in our clients' success.

Approach

We recommend using the threat of further tobacco regulation and the expected continued decline in tobacco sales to leverage new opportunities for the duty free industry. This approach would avoid accusations the industry is working on behalf of tobacco. Instead, it would position the industry as a rational retail entity planning for its long-term future, knowing that tobacco sales will continue to decline.

Equally important, it provides an opportunity to engage decision-makers in a discussion about why the industry was created and to offer a long-term vision for its future, with the ultimate goal of maximizing the potential for the industry, consumers and the Canadian economy.

It would also remind decision-makers that for land border duty free shops, the Government of Canada's criteria for licensing includes preferences for applicants that demonstrate a positive impact on local employment and a clear preference for small and medium-sized business owners. In effect, the vision of the Government is to promote locally-based and owned land border duty free shops, versus the airport duty free sector, which is now operated by large multinational entities. FDFA must ensure that Government officials and politicians value the local community aspect of the land duty free industry and continue to support this vision for the industry.

Context

The change of Government in October 2015 reset the landscape on tobacco issues, which could have major negative implications for the duty free industry. Whereas the Conservatives had taken some measures to strengthen tobacco control, such as banning some flavoured tobacco products, they were a more laissez-faire Government when it came to these issues and had prioritized addressing illegal tobacco.

However, the Liberals have already given tobacco control lobbyists several wins in their first two years in power:

- Banning most menthol tobacco products, after the Conservatives had repeatedly refused to do so;
- Introducing Bill S-5, which mandates plain and standardized packaging of tobacco products;
- Increasing tobacco excise taxes in the 2017 Federal Budget; and
- Launching a comprehensive review of the Federal Tobacco Control Strategy (FTCS), with a view to launching a new FTCS in March 2018 and a goal of reducing the smoking rate to 5% by 2035.

There is no doubt the tobacco control community sees an ally in the Liberal Government – and they are pushing their wish list of further radical measures. They have already succeeded in securing their dream initiative – getting plain packaging legislation introduced – and that will likely be passed by spring 2018. As a result, they are already planning beyond that and love positioning Canada as a global first mover on tobacco control initiatives.

We see at least five immediate threats for the duty free industry in relation to tobacco.

Threat #1: Massive excise tax increases.

While the tobacco control community is relentless, the Canadian advocates are following a playbook used internationally, so at least we have some sense of their next moves. Australia is the best-case study, where plain packaging was introduced in 2012. Knowing the policy's impact would be questionable at best in terms of reducing smoking rates, the tobacco control community lobbied for and secured massive excise tax increases in Australia. In other words, to show plain packaging was working, the Government simultaneously introduced massive excise increases, and by 2020 a pack of cigarettes in Australia will cost \$20.

Canadian tobacco control lobbyists are already calling for Australian-style tax increases in Canada and we expect this to be their major push in 2018. A recent report from the Non-Smokers Rights Association recommended two immediate \$5/carton federal excise tax increases.

Threat #2: Reductions in tobacco duty free limits.

You will recall that various tobacco control groups have been calling for changes to duty free tobacco sales during the federal pre-budget consultation for several years now. This remains a threat.

Threat #3: An end to duty free tobacco sales.

The Non-Smokers Rights Association recently published a report on tobacco pricing which, amongst other things, calls for an end to duty free sales. The tobacco control community never drops a measure from its wish list – and taxation/pricing is emerging as their main focus for 2018.

Threat #4: Implementation of a new FTCS.

The review of the FTCS is expected to lead to a new strategy being put in place in March 2018. That could also mean comprehensive changes to the *Tobacco Act*. The new strategy, which is expected to have a 10-year horizon, will be a major focus for tobacco control lobbyists, who will use it to try to get their wish list of proposals in writing. They will then use the FTCS to continually pressure the current and future administrations to implement everything in the strategy. Therefore, the strategy as a whole is a threat as it will probably deal with taxation, potentially duty free and just about every other issue tobacco control lobbyists wish for.

Threat #5: Restrictions on FDFA lobbying on tobacco issues, or an outright ban.

Health Canada is increasingly invoking Article 5.3 of the Framework Convention on Tobacco Control (FCTC) to argue that any tobacco industry stakeholders, including retailers, should be precluded from discussions about tobacco control initiatives. With the FTCS undergoing renewal, and with tobacco control groups lobbying for an end to duty free sales, this is another threat to the business. In short, you could be cut off from advocating on an issue that represents a significant portion of duty free sales – meaning the tobacco control lobbyists could set the agenda without any business input.

Recognizing that tobacco is still a critical component of duty free sales, our recommendation is still to fight against those initiatives that would be most harmful to the industry, with excise being the main near term threat. However, in so doing, it gives FDFA the opportunity to begin a discussion about the long-term needs of the industry and its vision for the future.

Proposal

TSA offers the following proposal to FDFA.

Step 1: Strategic Planning Session

As a first step, we recommend a detailed planning session to identify the current business challenges (e.g. liquor purchases from provincial liquor boards, further tobacco regulation) and future business opportunities for the duty free industry, such as gas and direct shipping. Included in that session would be an analysis of what legislative and regulatory changes are required to address these challenges and/or pursue new opportunities. TSA will also offer an analysis of what is feasible over the short, medium and long- term.

Step 2: Write a Position Paper

Based on the above, TSA will develop a position paper on the future of the duty free industry, outlining the challenges, the potential remedies, and new opportunities. However, the paper will start by contextualizing the industry and it being created by the Federal Government to repatriate sales to Canada and the vision of having locally-owned stores.

For the plan to be successful, the Government needs to be reminded of why the industry exists, and it must be convinced that remains an imperative. The context setting of the paper can also draw on the studies showing Canada as one of the most expensive tourist destinations in the world, including the lack of a visitor tax rebate program.

The long-term decline in the smoking rate and tobacco sales can be used to frame the need for a position paper at the present time. It is important to explain why tobacco sales are critical to FDFA members, but also to acknowledge it is a product line that will continue to decline. Key factors to explore would include:

- The percentage of store revenue directly tied to tobacco;
- The percentage of foot traffic and non-tobacco sales tied to tobacco;
- Analysis of the price point at which consumers no longer deem duty free tobacco a worthwhile expenditure; and
- Historical information on tobacco sales (i.e. showing that the duty free industry can manage a long-term gradual decline, but not an overnight halving or worse of duty free allowances).

Building on the above, you can include specific recommendations in the paper on tobacco – both defensive (e.g. no changes to duty free limits) and offensive (e.g. new business opportunities) to compensate for any further Government action. In effect, you would turn a negative into a positive: the long-term decline in tobacco use gives the Government and industry the opportunity to create a new vision for the sector.

The rest of the paper would then detail the priorities stemming from the strategic planning session. This could include measures to make existing products more competitive (e.g. alcohol), reinstating or modifying previous initiatives (e.g. a visitor rebate program) and brand new proposals (e.g. gas, direct shipping from online sales). Where possible, each should be backed by economic analysis, as was done for the RoadTRIP proposal.

Step 3: Message Development

The key messages for the campaign would be built around the findings of the position paper. FDFA should not hide from the fact that tobacco is its second largest seller. Tobacco is still a legal product and as long as that is the case, FDFA should pursue the right to sell tobacco products within an already heavily regulated environment. Moreover, Governments need to be reminded that the primary competition for duty free tobacco sales is contraband from First Nations and lost sales to the United States, neither of which generate any tax revenue for Canada.

However, messaging should make clear that the duty free industry recognizes tobacco sales are on a downward trajectory over the long-term, and that FDFA is not seeking to reverse that trend, but rather to allow the industry to naturally transition to this reality over the long-term without any market shocks (e.g. unexpected excise tax increases, cuts to duty free allowances, etc.).

Step 4: Engagement and Socialization

The position paper will form the basis of an engagement plan. The initial audience for this would be Members of Parliament (MPs) from FDFA member ridings and other key stakeholders (Finance, Finance Minister's office, Finance Committee, Canada Border Services Agency), but ultimately should include all MPs. This outreach may also include Provincial and Municipal Government stakeholders and non-government stakeholders. The pitch is essentially a renewed vision for duty free in Canada.

For duty free and taxation issues, the main focus will be the Office of the Minister of Finance and his officials. However, that engagement will need to be supplemented with direct outreach to MPs from FDFA member ridings and other potential allies, including Ministers with a stake in a renewed industry (e.g. Ministers who have producers in their ridings or the sectors they represent that would benefit from the new vision).

As the Government has passed its mid-way mark, this effort should be targeted at all political parties in hopes of influencing them in the lead-up to the October 2019 election. The position paper will frame the new initiatives as a win for consumers, the industry, the Canadian economy and government, making it an appealing proposition for all parties.

Step 5: Evaluation

Within six to eight months of launching the engagement and socialization effort, FDFA will need to evaluate the success of the campaign to date, including which proposals are getting a positive reaction from decision-makers, which are proving more of a struggle, where opposition is coming from (e.g. from the bureaucracy, from other stakeholders, etc), and what adjustments need to be made to overcome any opposition.

Timeline

We understand FDFA will make a decision on a path forward around May 2018. If that is the case, we recommend the following timeline to implement the plan detailed above:

- May/June 2018: strategic planning session and any analysis required stemming from that.
- July/August 2018: draft position paper, reach agreement on its content, and develop core messaging for the campaign.
- September 2018 to April 2019: engagement and socialization. Note this window will likely include the 2019 Federal Budget, which could give an indication of the Government's interest in the proposals (e.g. an initial win could be having the Government launch a review of the industry).
- May/June 2019: evaluate the campaign to date and determine if it should be continued, amended, or completely re-oriented.

The timeline above covers a 12-month period, which is a realistic window for a campaign that is seeking major changes for an industry.

Budget

There are two models to consider to advance this initiative.

Under the first model, TSA would operate in a support capacity for FDFA resuming operations with its own office and Executive Director. This is a more traditional approach and one TSA regularly implements with other clients. In this scenario, TSA would support the strategic planning session, develop the position paper and messaging, and then work with a new Executive Director to socialize the plan with decision-makers, including developing a stakeholder map, booking meetings, preparing briefing notes and so on.

Under the second model, FDFA would not hire a new Executive Director. Instead, FDFA and TSA would offer a TSA staff resource to act as Executive Director. All the work detailed in the first model would still take place, but TSA would carry out the functions that would have otherwise been handled by the Executive Director, which would mainly be meeting with decision-makers and reporting on progress to FDFA's leadership.

Under the second model, FDFA could move its existing staff resource into TSA's office. As TSA is in the process of potentially filling an administrative position, a portion of the salary of that staff resource could potentially be transferred to TSA.

Budgeting for the first model is relatively simple. Based on past experience with similar campaigns, we estimate a budget of \$6,000/month to implement the plan as outlined.

Under the second model, we estimate a budget of \$10,000/month. The Executive Director would perform many of the tasks identified in the first model, but there would presumably be additional duties in terms of reporting back to FDFA's leadership, attending FDFA meetings, and the more general tasks required in managing an association.

Based on existing agreements with other organizations, the cost of housing the FDFA office within TSA's Ottawa office would be \$800/month. That would cover the overhead associated with such an arrangement (e.g. phone, internet, furniture, etc.). FDFA would also have the use of TSA's boardroom whenever needed.

As mentioned above, subject to TSA's needs and those of FDFA, TSA could potentially absorb a portion of the salary of FDFA's existing staff resource.

Finally, all TSA clients are provided with detailed monthly invoices describing the work performed. Our rates do not include taxes or direct expenses, such as travel, accommodation, courier, telecommunications, translation, and design/printing of materials.

TSA Team

TSA has almost a decade of experience working on tobacco issues, two decades working with the beer industry, and has worked with FDFA in the past on several occasions. The team we would assign to this campaign would consist of Principal Don Moors, Vice President Duncan Rayner and Consultant Kristina Proulx. Bios for all are attached.

Thank you for the opportunity to submit this proposal. We look forward to hearing from you.

DON MOORS
Principal

Don Moors leads the TSA's Ottawa office and government relations practice.

With more than fifteen years experience as a senior government relations practitioner, Don provides TSA's clients with an in-depth understanding of the Government of Canada, its policy and legislative procedures, and how to influence them. He has developed and implemented a variety of successful government relations campaigns for many leading companies and industry associations including Mastercard Canada, Salesforce, and Beer Canada, to name a few.

Educated as a lawyer, Don combines policy depth with legal training and political experience to help clients work through complex regulatory and policy issues.

Don has been a regular political commentator on television and radio, providing a Liberal perspective on panel shows on CTV, CBC and CPAC.

Don regularly provides seminars for corporate executives on lobbying and advocacy, including training for Parliamentary Committee appearances. He has been recognized as one of Canada's Top 100 Lobbyists by The Hill Times, Canada's only weekly publication dedicated to political affairs. He received the Brett Yerex Exceptional Advocacy Award in recognition of his initiatives to change public policy for the benefit of people affected by ALS.

Prior to practicing government relations Don worked as a Senior Aide to the Secretary of State for Finance. During this time Don managed a range of financial sector and fiscal issues, including the 1997 review of financial sector legislation and Bill C-15, a Bill to enhance the safety and soundness of the financial sector.

Don holds a Bachelor of Laws Degree from Queen's University as well as a Masters of Arts in Economics.

DUNCAN RAYNER
VICE PRESIDENT

Duncan Rayner provides government and public relations counsel to a wide range of domestic and international clients including Mastercard Canada, Imperial Tobacco, OpSec, the University of Manitoba, the Coalition for Canadian Astronomy and the National Association for Information Destruction.

Duncan's clients value his ability to read the political scene, provide early warning of potential problems and opportunities, and offer solutions to work constructively with Governments at all levels.

Duncan served as Director of Operations for the 2004, 2008, 2012, 2015 and 2017 Governor General's Canadian Leadership Conferences, which are designed and organized by TSA. This multi-site, multi-sectoral Conference is an immense undertaking that requires impeccable attention to detail and acute understanding of the business, Government, labour and non-profit sectors.

Duncan also was a key part of the TSA team that worked with Buckingham Palace to develop a history of the Duke of Edinburgh's Commonwealth Study Conferences to help commemorate its 50th Anniversary in 2006.

Duncan joined TSA after several years in the political sector, serving as a Senior Advisor to former Progressive Conservative (PC) Leader Peter MacKay and as Director of Operations for the Progressive Conservative Party of Canada. Duncan played a central role in drafting the agreement that led to the unification of Canada's Conservative Parties.

Responsible for national organization and mobilization with the Conservatives, Duncan also served as in-house convention planner and advised on all internal and external communications, always in a high-risk, high-profile environment with no room for error.

These skills have been transferred to Duncan's work with TSA, helping clients build relationships with external stakeholders and the media to further their government relations and public affairs goals.

Duncan is an exceptional writer and holds a B.A. from Bishop's University and an M.A. from Dalhousie University. He is frequently invited to speak on government relations to conferences across North America.

Duncan is a native of St. George, New Brunswick.

KRISTINA PROULX
CONSULTANT

Kristina heads TSA's policy, political and media research programs, tracking key client issues and priority legislation with Federal, Provincial and Territorial Governments.

She also supports TSA client service teams as a Consultant on select files.

Kristina began her career as an analyst at the Department of Global Affairs Canada, where her work included speech writing, preparing briefing notes for senior officials, planning and facilitating events, and research. In addition to strong writing and research skills, her Government experience has given her an intimate understanding of policy making and priority-setting at senior levels of Government.

Kristina graduated with a Master's of Arts in Public and International Affairs from the University of Ottawa. She also holds a Bachelor's of Social Sciences in International Development and Globalization.