

The Empire Club Presents



**JORGE ARAYA, PRESIDENT &
CEO, IMPERIAL TOBACCO CANADA**
WITH: MIKE EPPEL

**Welcome Address, by Barbara Jesson President of Jesson +
Company Communications Inc. and President of the Empire
Club of Canada**

September 28, 2017

Good afternoon, ladies and gentlemen. From One King West Hotel in downtown Toronto, welcome, to the Empire Club of Canada. For those of you just joining us through either our webcast or our podcast, welcome, to the meeting.

Before our distinguished speaker is introduced to you, today, it gives me great pleasure to introduce our Head Table Guests. I would ask each guest to rise for a brief moment and be seated as your name is called. I would ask the audience to refrain from applause until all the Head Table Guests have been introduced.

HEAD TABLE

Distinguished Guest Speaker:

Mr. Jorge Araya, President and Chief Executive Officer, Imperial Tobacco Canada

Guests:

Mr. Mike Eppel, Senior Business Editor, 680 News

Ms. Deborah Glendinning, Partner, Osler, Hoksins & Harcourt LLP

Mr. Craig Lockwood, Partner, Osler, Hoskins & Harcourt LLP

Dr. Gordon McIvor, Past President, Empire Club of Canada

Ms. MJ Perry, PhD Candidate in Theology (University of Toronto); Owner,

Mr. Discount Ltd.; Director, Empire Club of Canada

My name is Barbara Jesson, and I am President of Jesson + Company Communications and President of the Empire Club of Canada. Ladies and gentlemen, your Head Table Guests.

There is an elephant in the room with us today, and, believe me, have I heard about it. Our guest speaker, today, is the President and CEO of Imperial Tobacco Canada, part of British American Tobacco, the world's largest tobacco company.

We all know that smoking tobacco products, specifically cigarettes, carries with it a very serious health risk. Even among western nations, tobacco-related health issues remain the leading cause of death.

Before we announced who we would bring as today's speaker to our podium, the very possibility stirred some significant controversy with our board. First, let me state very clearly that the board of directors of the Empire Club of Canada and most certainly its President does not endorse or support the sale of cigarettes or other tobacco products that are ignitable. So, why would we agree to give a voice to our

speaker, today? As we debated this, internally, support came from a surprising corner, the most outspoken advocate for social issues on our board. She argued very persuasively that the pendulum on freedom of speech for controversial issues has swung too far and that we should, at least, be prepared to listen.

Today, the western world has taken aggressive steps to curtail the marketing of tobacco products. In Canada, occasional smokers accounted for 17.7% of the population over age 12 in 2015. In 2000, that number was 26%. However, many Asian and third-world countries do not yet have legislation or policies in place to protect their citizens from smoking, and nearly 80% of the 1 billion smokers worldwide live in low- to middle-income countries.

Still, there is some light in all of this. The World Health Organization initiatives seem to have had some success, globally, over the past decade. Smoking worldwide has modestly declined, and, happily, the biggest change is among young people where we will see the most significant health benefits.

Tobacco companies, too, have begun to change. In the past, we know that some companies went to extreme lengths to suppress mounting scientific research about the perils of smoking. Today, at the very least, they are more transparent. Many, including the company before us, today, lead the research on noncombustible tobacco products. Both the UK Department of Health and the FDA now support innovations in tobacco, particularly, new noncombustible tobacco products. As things stand, e-cigarettes containing nicotine cannot

be legally manufactured, sold or imported in Canada, but, as I understand it, the Canadian Lung Association is currently updating their position statement based on new scientific evidence.

After much debate and considering all of this, in the end, it fell to me to make the final decision on including our speaker, today, at our podium. This is how I see it. British American Tobacco is a public company with obligations to shareholders. It will not be the first or the last company compelled to reinvent itself or its products. And there are suggestions that at least one tobacco company will be completely out of the cigarette business within the decade. The example I best like to cite is the Berkshire Hathaway case, which started out as a textile manufacturing company. In 1962, Warren Buffet began buying into it after noticing a pattern in the price direction of its stock whenever the company closed a mill. Eventually, Buffet had to acknowledge that the textile business was waning, and the company's financial situation was not going to improve. The rest, as they say, is history. This is where I netted out.

Our guest company is changing, and if we want to encourage that change, we should show courtesy and listen. To this, we added one final caveat. Our guest speaker would have to agree to an interview format whereby he is held accountable by one of Canada's leading journalists. I must say, to his credit, he did not shy away from this.

Ladies and gentlemen, let me introduce you to Mr. Jorge Araya, President and CEO of Imperial Tobacco Canada, who has worked with British American Tobacco since 1995.

He has been a leader in their portfolio evolution and contributes to the transformation of this complex and often controversial business.

His interrogator is Mike Eppel, who has a track record of reporting on financial markets and corporate news for more than 25 years. He is currently with 680 News, Toronto's leading all-news radio station. Gentlemen, over to you.

Jorge Araya with Mike Eppel

ME: Thank you to everyone who is in attendance this afternoon. I understand that you have sort of an opening statement that you want to give about the state of the tobacco industry right now, and then we will get into the finer points of the debate about so many things, whether it is tobacco or e-cigarettes or even the forthcoming marijuana legalization. The floor is yours.

JA: Thank you very much. Barbara, thank you very much for the kind introduction and, most importantly, for opening the doors. I know we are a very controversial industry. We really appreciate the openness. We really appreciate the debate that you guys had and that you finally allowed us to say a few words here. Thank you very much.

I would like to thank the Club for continuing to provide the opportunity for diverse viewpoints to be heard and discussed. To this point, we are certainly a very contentious industry. Let me be very clear: There are

important health risks about smoking. Smoking is a cause of serious and several diseases. The only way to be safe is not to smoke. I am the first one to say that, and I want to make it very clear. Still, it is a reality that there are roughly 5 million adult Canadians who smoke.

They are fully aware of the risks of smoking, but they continue to smoke. While we believe they should decide for themselves whether or not they smoke, we also think that they should have less risky products available to them.

This is why we are launching what we call a sort of a revolution, which are these less risky alternatives. These are products that have fewer toxicants and that offer potential public health benefits. We believe that we have a strong proposal that will benefit consumers, governments and society, in general. This is the result of billions of dollars spent on research and development, which has produced commercially viable products that are significantly less risky than traditional cigarettes.

I want to be clear. We want, as was mentioned at the opening, our consumers to migrate from traditional cigarettes to these new, reduced-harm products. This migration will also require regulations that incentivize consumers to make the switch. Success will not be the result of regulations that benefit the producers of cheap contraband tobacco. By providing cheap cigarettes, the legal industry encourages consumption on their unregulated and their untaxed products. This damages public health and de-

prives governments and taxpayers of billions of dollars a year in lost revenue.

Currently, for the ones who do not know, nearly a quarter, 25%, of cigarettes consumed in the country are illegal and upwards of 70% in some areas of Ontario.

We were discussing, here at the table, that, if Ontario would be a country, it would be the third country in the world with the highest incidence of illegal tobacco consumption. This is only to start the conversation around the illegal tobacco industry.

Regulations like plain packaging now being proposed in Canada will not help. This is a law that removes all branding from the cigarette pack. We know from Australia, which is a country that has this regulation, that this has not improved public health, as their government admits that smoking rates have not declined since they introduced plain packaging. We also know that plain packaging helps the illegal industry by forcing our products to look like theirs. This highlights the huge difference in price between packs, legal cigarettes and untaxed illegal ones. With no branding to differentiate legal from illegal products, it is impossible for consumers, retailers and law enforcement to identify legal versus illegal.

Our government knows this, which is why they are not mandating plain packaging for marijuana.

They also intend on keeping marijuana taxes low to squeeze out the black market. If these principles apply to marijuana, they also apply to tobacco. Our first challenge

is to ensure that regulations encourage consumers to migrate away from unregulated cigarettes and to less risky next-generation products instead. One of these next-generation products is called iGlo. This is what we were talking about. We launched this product in the summer in British Columbia. We started a small test there. It heats, and it does not burn tobacco. It is like a tobacco stick. You put it into a device, and, rather than burning the tobacco, it heats the tobacco, so there is no combustion. The vast majority of the toxicants in cigarette emissions come from combustion. With no combustion, the result is far less toxicants. We will follow our iGlo launch with the introduction of our own electronic cigarettes, the so-called e cigarettes, once the law that will legalize them is passed by parliament. These are products that do not contain tobacco, but a simple liquid containing nicotine.

There is a wealth of evidence that suggests that vaping products can have a beneficial impact on public health. Public Health England concludes that vaping is roughly 95% safer than cigarettes. The Royal College of Physicians and the University of Victoria's Centre for Addictions Research are among many other organizations that agree with this statement, but these products will only succeed if we can tell consumers about the harm reduction potential. Regulation must allow us to do so and must permit products to be appealing to consumers. We believe that these less risky products can be the game-changer that brings smoking rates down from

its current 16% in Canada to the government objective of 5%. Imperial Tobacco Canada has every intention of working to make that happen, and we look forward to regulations that also support this goal.

ME: When I was first asked to be part of today's event, there was a little bit of a preamble about what the subject matter was. I basically said to Gordon, "You had me at 'tobacco'." The reason being, I grew up in a tobacco farm in Southwestern Ontario. I worked on the family farm for five years. My back still does ache when I hear that word a la Stompin' Tom Connors. When I turned 16, I smartened up and got a job in radio. That is my backstory. Having worked in it and growing up in it, I have never smoked. I would be a frequent attendee with my father at the auction process, which was always fascinating. That no longer exists. The industry has changed dramatically, as you are well aware, just from a growing standpoint, and, yet, in 2009, the government bought out the marketing board system of tobacco, bought out all of the quota of the farmers, similar to the system that the dairy industry, for example, has, and yet, if you drive down to Southwestern Ontario, specifically in Brantford, you will see acres upon acres of tobacco being grown.

One question that I have for you is how much actually Canadian production of tobacco is used now in Canadian cigarettes? It used to be that anything grown and sold here had Canadian tobacco for flavour purposes, a lot of U.S. for filler. Is that all part of the changing dynamic?

When I was growing up, tobacco was, at that time, seen as this pariah industry that it was almost—I joke about my youth, to some extent. I do not want to idolize it in any way, shape or form. Is that sort of the way it is right now?

JA: Canadian tobacco is very high quality, and we use it for the production of cigarettes ourselves and the rest of the legal companies that operate in Canada. However, unfortunately, the vast majority of the production now has been sort of deviated into this illegal market. As I mentioned, 25% of the consumption of tobacco in Canada comes from the illegal market, and farmers are being held captive by these illegal industries and forced to supply them to produce their illegal tobacco. But we utilize Canadian tobacco.

ME: A lot of it goes to the United States, I understand, too. You had some very interesting baseline numbers of—when we were discussing at lunch—the legal price of a carton of cigarettes versus a black market or if you go to a Native reserve and buy a bag of similar amount.

JA: Yes, if we would step down to the tobacconist right here on the street, you would pay roughly \$107 for a carton of 200 cigarettes, a typical carton of cigarettes. You can get a baggie, a Ziploc, a plastic bag with the same 200 cigarettes, of lower quality, of course, for \$15. That is the asymmetry, and this is what explains the growth of illegal tobacco in Canada.

ME: When you hear of budgetary measures, for example,

where they go after the easy target of sin taxes, yes, they want us to not use the product certainly for health reasons, but is there a direct correlation soon thereafter in the numbers that you see from a sales standpoint from legal versus illegal production?

JA: Yes, indeed. Every time authorities tend to shock the industry and apply hefty increases in taxation, there is a dramatic shift towards illegal tobacco because prices have to go up. As I mentioned in my opening remarks, this is what explains why Canada rates are so high in terms of illegal tobacco consumption. If you compare ourselves with south of the border, with the States, there is a significant difference in the rate of taxation. Tobacco consumption behaves exactly the same in terms of underlying decline of consumption, but there is no illegal industry. That is the difference. I think authorities have to be very prudent. We believe in high taxation for tobacco. Do not get me wrong. We have to pay for the externality that we generate, but any exaggeration, and it is basic economic theory, moves consumers into the black market.

Actually, our prime minister, Mr. Trudeau, mentions that. He says there is no illegal industry in alcohol, in beer, because taxes are at a reasonable level. That is not the case of cigarettes. He mentioned this. I am quoting him. It is an absolute reality, unfortunately.

ME: If you do not want people to smoke, necessarily, for health reasons, how do you, as a company that makes

cigarettes, get there from here where we are trying to reduce the number or the percentages? If you cannot do it, necessarily, through taxation, and you cannot market your product, per se, are there technological advances—or how are you transitioning?

JA: Good question. We have very strong principles. First, we believe in the choice, in freedom of choice, in the capacity of adult consumers to decide what they consume. If tobacco is a legal product, they should be allowed to choose, and they should be allowed to have access to the products. Having said so, we strongly believe that by offering reduced-risk products and being able to communicate this to consumers and being able to have good quality products that are available out there, consumers will migrate. What we are basically trying to do is migrate smokers from traditional cigarettes into these next-generation vaping products in such a way that they have less risky options, if they decide to consume. At the same time, we do each and every possible effort to keep the products away from minors, to keep the product away from any sort of communication in the case of cigarettes. If you enter into a store, you cannot see cigarettes.

ME: No, that is true. Will there always be this skepticism that the tobacco industry brought this on by itself through various health issues of the past and cover-ups and investigations? Let us face it: The consuming public is like, “Ah, the tobacco industry, they are always going to

have this cloud of smoke, perhaps, above.” As you said, you cannot market to change perceptions.

JA: Yes.

ME: How do you—does that come through lobbying where you have to go through the government channels to allow the sort of rebuilding and, again, to allow people to get off harmful cigarettes and onto, if in fact it is, a healthier product?

JA: We have a very progressive view. Two comments on your remark. First, we believe the future has to be very science-based. This is not about what I think or whoever thinks. This is about scientific evidence regarding harm reduction. For the past few years, the industry has been investing billions in research and development in order to come up with reduced-risk products. It is not us saying it. This is the evidence coming from scientific publications; this is Health UK, the Royal College of Physicians—some very highly credible universities who are driving independent studies on this. As long as this is scientifically driven, we are happy to play. That is the first thing. If that is allowed, what we are saying to the authorities—and this is being discussed at parliament at the moment, namely, Bill S-5—is that we need very clear product standards so that consumers can trust this product. We need to be able to inform consumers out there, to inform smokers of the characteristics of these new products. If we can tell them that these products are 95% safer than a cigarette, they might be willing

to try and migrate. If we cannot, we can come up with fantastic products, but they will never know. Consumers will not know; hence, they will not migrate. Therefore, there is not a solution for something that the authorities in Canada want and what we want to support, which is this migration out of smoking.

It is impossible to do it without cooperation. I think the days where the tobacco industry was not received by the government, the day where the industry was demonized, those days should be over. We are very open. Everything that I am saying, you can enter into bat-science.com and you will see all the research, all the studies, et cetera. It is a very open door and transparent policy—science-driven—and this is what we want to do.

ME: The other thing, too, concerning the sale of illegal product, is that we are going to have marijuana sales starting next summer. And, yet, we were talking earlier about vaping and e-cigarettes and a lot of these things are not even “legal” in the Canadian market, and yet, I did not know that. Again, I am not a user of any of these products, so it is not necessarily on my radar, but I have a feeling that a lot of people in the audience do not know, necessarily, what is and what is not legal.

JA: If vaping would be legal, believe me, we would be there. We are not. Vaping, in Canada, and selling liquid nicotine vaping products—unless they are approved by Health Canada—are illegal. All the stores and all the products that you see out there are basically selling ille-

gal products. This is why, finally, the parliament decided to promote regulation on this. This is being discussed at parliament. We hope that sooner, rather than later, products become legalized. The moment they become legalized, we will be in the market offering high-quality vaping products that are much less risky than cigarettes. At the moment, they are all illegal. We operate in a market—this is very peculiar for a Latin; I am Chilean, by the way—where 25% of cigarette consumption is illegal and it is tolerated and where 100% of vaping consumption is illegal, and it is tolerated. To me, it is incredible. I just do not get it. I hope we get some traction with the authorities and we manage to legalize this market because it is in the benefit of all consumers.

ME: Does the upcoming legalization of marijuana help or hinder the tobacco industry from a lobbying standpoint? And, again, there is this message of you have sort of a normalization of marijuana use—it is an inhaled product, for the most part, the smoking version. Can you use that to argue your case, or are they two different products such that there is no crossover?

JA: I think they are two different products, but they should be treated similarly. At the moment, for Bill C-45, which is the bill that intends to legalize marijuana, as you mentioned, the objective is to very ambitiously have it legalized by next summer. The government is basically advocating for lower taxes; it is advocating for branding in the products; it is advocating for keeping the products

away from criminals and away from the hands of children, which we entirely agree with. I am not saying that we agree with marijuana. I have enough controversy with tobacco, so I do not want to get into the marijuana thing. All the principles are exactly the right principles in order to promote an industry, and we agree with that. We think tobacco should be treated equally; otherwise, we would be in a very contradictory environment whereby marijuana would have branded packaging, would be allowed to communicate certain things, would have lower taxes, and tobacco would be in unbranded packs exactly as illegal tobacco, and we will not be able to communicate, and we will continue having absurd levels of taxation. Our message is only a call for consistency in the treatment of these two categories.

ME: I was surprised that your company and the tobacco industry did not actually get involved with the formation of the legal marijuana industry. You are talking about a grown product into a smoke or, well, in some cases, edible format, but would there not be a tie-in between the two industries?

JA: No, not for the time being. It is an industry that we do not know. We do not understand the product. We do not understand the science behind it. Everything that we do is very science based, so, no, we are not interested, not close. We follow what is going on in terms of legislation because, of course, we are advocating for a very consistent treatment of the two industries, if that is the case.

ME: At the same time, if you had an interest in it, then would that not give you some inroads, I suppose, again, to argue your case about a standardized form of marketing, packaging, sales, the black-market issue?

JA: Yes, I think we will approach all this black-market issue basically following the basic laws of the economy and the government. Again, Mr. Trudeau and the finance minister have been very vocal in saying that prohibition does not work, that the draconian regulation, in the case of marijuana, would only continue keeping the product in the hands of the criminals and not in the hands of a legal industry. We see the analogy. We think that is our voice, and this is what we are saying. We do not need to be part of the marijuana industry to actually advocate for very clear principles that I think benefit the society, in general, in Canada.

ME: Where does Canada stand when it comes to the packaging issue for cigarettes? Again, I am not a smoker. I do not go to the United States, specifically, and search out how tobacco is sold there, for example. But are we at the forefront of countries that are really cracking down and trying to suppress tobacco sales?

JA: Yes, Canada. Let us say, if you allow me the word, and with a lot of respect, that it is a very hostile market for the industry in terms of regulation, so whoever is a smoker here and looks at the pack sees that it has a 75% warning. So, 75% of the pack is a warning with a very nasty image, et cetera. What is part of S-5, which

we are opposed to, is that the government wants to ban branding from packaging and basically make it such that you will have the brand name on a dark pack and from 75%, they will add another 25% warning, and that would be it.

We opposed that consistently and in a very firm way because there is only one country that has experience with this plain packaging, which is Australia. They have been into plain packaging for the last four years. For the first time, their government has acknowledged that tobacco consumption is not coming down in Australia. On the contrary, they see illicit tobacco, illegal tobacco growing and consumption very stable. We think it is a very ineffective measure that will only promote further growth of the illegal tobacco market. By the way, if there are people from the other industry here, this is also a trademark expropriation. This allows the government to take property away from you without paying. They will be removing the tobacco brands from the cigarette pack without paying a cent for that, which we think is absolutely illegal as well. We oppose violently to that.

ME: We have seen, in very short order on a year-to-year basis, huge changes within the tobacco and cigarette industry. Where will we be in five years or ten years out? Do you see a transition happening? You would like it to happen, but is it feasible, or do we continue to ward off people from cigarette use in the first place?

JA: It is a very good question. I can share an example, which

is Japan, which has very progressive regulation in tobacco. Almost 18 months ago, Japan started with this introduction of what we call tobacco-heated products, which is what I recently mentioned. We launched in Vancouver, this product called Glo, whereby you put a stick, similar to a cigarette, inside a device that heats the tobacco. It does not burn the tobacco. It is very similar to vaping, but it is not vaping; it is tobacco that you put inside the machine, and then you smoke. In less than two years, that accounts for 30% of tobacco consumption in Japan, which is one of the biggest markets in the world. There is a chance for this to work. What has happened there—well, the tobacco manufacturers are allowed to communicate, so they are communicating that this product is less harmful than cigarettes. There are very strict product standards that the industry has to comply with, which is what we want to happen in Canada, and taxation is reasonable in such a way that these products are affordable, and consumers can pay for them. Again, in less than two years, 30% of the smokers moved to these less harmful products.

We believe we can do that here in Canada, but in order to get to that sort of ground in that sort of time, we need legislation. In the current legal framework, we believe it is absolutely impossible. We will do our best effort. We already started in Vancouver. We have been there for two months. We want to come into Ontario and to spread this across the country. As soon as the law enables us, we will

launch the vaping products, but, if regulation does not help, if we do not have this cooperation and collaboration with the authorities, we believe this will be a very difficult enterprise.

ME: Does the legalization of marijuana, then, if in fact it is a successful rollout with the lower taxation level, help your case? Because their objective is to keep the black market out of it. Now, again, it is going to be sold through individual stores operated by the LCBO, but does that help your case, going forward, to piggyback off that and say, “Look, it is working here, where you can keep the control of the usage and guide the consumer,” so to speak?

JA: We hope that we get at least the legalization of vaping before the legalization of marijuana. If it does not happen, yes, of course we will sort of look at the evolution of this market and continue expressing our views regarding what kind of proper legislation is needed in Canada in order to migrate adult smokers into less harmful products. That is what we believe is the only solution. They can make tobacco illegal. Sometimes when I am confronted by the tobacco control community, I ask them back, “What is your solution? Make us illegal. Why are you investing so much money from taxpayers in lobbying, in traveling, in anti-tobacco conference, et cetera, et cetera, et cetera, and never come up with a solution. Make us illegal.” That would not be a solution. This is happening.

ME: No, because then you get into prohibition.

JA: This is what they have been doing. The more regulation they put into a legal industry, they are basically moving this on a golden tray into the illegal tobacco manufacturers. This is what has been happening as regulation has been becoming increasingly more restrictive in Canada at the federal level and at the provincial level as well. The two levels are very complicated.

ME: As well, again, where I grew up, they bought out the farmers. In 2009, on Labour Day weekend, there was the class action lawsuit settlement—I think it was 2008 or 2009, I cannot remember specifically. But, that weekend, going into the long weekend, on Friday afternoon the government announced that they were buying out the tobacco industry, the quota system. Why would they do it on a Friday afternoon? Your guess is as good as mine, but it probably did not get the media coverage at the time.

Having said that, the amount of tobacco that is grown now is quite substantial. It is based on a contract system. I am hearing, just through friends and family, that they are looking, again, at cracking down and trying to close down that, the production side of it. Do you think if that happens, and you are not getting local production, and, again, I do not know exactly how much it is used domestically in Canadian cigarette production, specifically, but is that the first step maybe to, again, get away from standard cigarettes?

JA: I think what has to be done is basically manage the demand side of it. The government has to facilitate the demand side of it, which is basically making consumers aware that there are less harmful products available. That will trigger the—it will not be a supply-driven movement; it will be a demand-driven movement. For that we need tobacco, anyway. That pushes the supply. What is essential—and we were talking behind the scenes—is consumers did not know about low-calorie products until they started to be communicated. It is the same thing here. Consumers will not know about less risky nicotine products until they start to be communicated and until they trust them. For that, you need very clear product standards, high quality, not this sort of back-of-the-garage kind of liquids that you put in a big machine—no. You need high-quality products and very reasonable possibilities to communicate them.

ME: I understand you are open to taking some questions from the floor.

JA: Absolutely.

Questions & Answers

Q: I have a question, and it is something we did not talk about at lunch. Obviously, we know now, from the endless media reports over the last six months on legalization of marijuana, that there are a lot more ways to consume marijuana than there are tobacco. You can drink it through tea, or you can eat it. We know there is a lot more. We also know that, for those that want to be more healthy and that are going to consume marijuana—at least what people are saying—they probably will not smoke it; they will consume it in some other way. My question—and you said you only dealt in science—is not really a scientific question; it is more anecdotal. My question is we know that marijuana—whether you smoke it or consume it in another way—increases appetites, all types of appetite: Sexual appetite, food appetite, and so on. And it lowers inhibitions. That is a well-documented side effect of consuming marijuana.

If I were working for a tobacco company, it seems to me that, and I am not trying to cast any aspersions, but it would seem to me that this would be opening up an enormous new demographic for smokers, that these people that are going to be consuming marijuana might want to smoke or consume tobacco, and they would not otherwise necessarily have done that. Do you put any credence in that at all? Is that something

that anyone in your company has ever looked at, at all, as a potential new market for tobacco?

JA: No, not really. We know that a lot of consumers smoke tobacco and smoke marijuana. Marijuana is widely spread. Actually, there are more marijuana consumers than tobacco consumers, as far as we know. The relationship between them and the effects on health of marijuana—we do not really know them. We do a lot in science with nicotine and tobacco. We do not know the effects of cannabis. It would only be anecdotal. We do not have a position on that. I will never say never, but, for the time being, no, we do not know. We do not really know.

Q: My question is in regards to vaping. In Bill S-5, one of the provisions is a prohibition on letting consumers know we are marketing to consumers, that it is a safer product. Has the government given you justification on why they would prohibit that type of marketing or branding or that type of advertisement in regard to when vape products are legal?

JA: I think there is a very thin line between safe and less risky. What we are advocating for is at least to be able to inform consumers that these products are less harmful, that they contain significantly less toxicants than a cigarette, than a traditional cigarette, and we believe that is the right way to do it. Unfortunately, we face a very conservative approach of the tobacco control community, which is influencing regulation. It is a debate that we are having at the moment.

We are confident that our voice will be heard and that we will be able to communicate a few things that will drive this shift from traditional cigarettes into these vaping products. Otherwise, why would you move, if you are a smoker? You light your cigarette; you are happy smoking, et cetera, et cetera. Unless there is a clear benefit, unless you understand that it is better for you, why would you move? If the legal industry is not allowed to do that, I think this will be a very slow and painful transition towards that. The products have to be good. The products need to have higher quality, and consumers need to know what is behind them. That is the essence of any industry. We are advocating for that.

Q: Good afternoon, everyone. I work for a vape chain, 180 Smoke Vape Store. I noticed we have talked about cannabis; we talked about tobacco; we have talked about e-cigarettes; but we have not talked about the Big Pharma that sells NRT products. What kind of opinions are you seeing from them, from where you sit? Are they supporting some of your causes? Are they going against you? As a vape chain, we mostly see most opposition from Big Pharma. We do not see much opposition from tobacco or cannabis, and nobody is talking about that. Maybe I want to hear your opinion and what you think.

JA: First, we entirely support vaping. We are discussing together, so we hope we can get good legislation because it will be great for you guys as retailers and good for us

as manufacturers. We have a very good relationship with farmers. We need leaf. We need tobacco, anyway.

And we do not have a particular relationship with Big Pharma. We think they are not particularly happy with 'Big Tobacco', as they call us. Yes, that is a bad name. We have not been able to change that, but they see a threat. I think they see a threat from the industry because they have a business in smoking cessation. Several independent studies, including one from here, from the University of Victoria in British Columbia, are acknowledging that vaping has much more effective cessation devices and products than what Big Pharma is actually providing. I think that is the sort of competitor, and it is good to have competition, but we do not deal with that industry. We do not have any sort of contact or communication. I think they have their own business, and I am very happy that there are options for consumers who want to quit, which, on the other hand, proves that quitting is possible. Smoking is addictive, but addiction does not mean inability to quit. They make a business out of that. We want to make a business out of the consumers who are moving from traditional cigarettes into vaping. We believe there is a lot of future there.

Q: Bill S-5 puts some vague restrictions on advertising and promotion of vaping and harm-reduction products. What kind of advertising restrictions are you supporting, and what kind of advertising restrictions do you oppose?

JA: We will always support anything that keeps the product away from the hands of and visibility to minors. That is a non-negotiable principle for us. We are not into that. We would advocate for any sort of communication that will allow us and you guys to communicate the characteristics and quality standards of the product to consumers. That is basically our position.

Q: I am interested to hear your thoughts in terms of product standards. Would you believe, or do you agree that perhaps the biggest catalyst for a migration to reduced-risk products would be reducing the amount of nicotine in combustible cigarettes to minimally or non-addictive levels, like has been proposed by the US FDA?

JA: We welcome the initiative from the FDA in terms of regulating nicotine. In fact, in many markets, there are nicotine ceilings for products. We have not seen that as a catalyst to migrate consumers from one category to the other one. We do believe that the biggest catalyst would be for the vaping industry to be able to claim that the products have much lower toxicants than cigarettes. That is what will trigger this migration in consumers.

On what the FDA is trying to do, we support it. We welcome that. It is a very science-driven process. We also welcome that they have acknowledged the risk continuum where they put cigarettes first and then tobacco-heated products and then vaping products.

Anything that is science-driven is highly welcomed. In terms of the catalyst, I think it is much more about what vaping is offering rather than what cigarettes are offering because there is always this risk of the illegal market.

ME: Thank you very much.

JA: Thank you very much. Thank you, Barbara.

ME: Excellent conversation.

JA: Thank you very much.

**Note of Appreciation, by Deborah Glendinning,
Partner, Osler, Hoksins & Harcourt LLP**

This has been a very important and enlightening dialogue, I think, for many of us. I am not sure how many people truly understand the extent and magnitude of the issues and the challenges that this industry is facing and has faced for many, many years. I think engaging in dialogues like this is critical to having the public better understand what is going on and the great work that people, like Jorge, his executive team and BAT Canada, are doing to address things like the public health issue and to put products on the market that are going to deal with the demands of the public and the regulators.

It is evident the level of commitment that we have seen from the organization and from the executive team and Mr. Araya, in particular. It is not like he does not have enough to do at the office, but he is committed to coming out and speaking to the public on these issues, so that people can understand the importance of the work that is being undertaken.

As Barbara said at the beginning, it is important that we listen. The more we listen, the better we are able to communicate and get across the issues and achieve, together, what needs to be achieved in this industry. I am very proud to say that I know Mr. Araya personally, and I think he has done a tremendous job. I think we should all appreciate the fact that he has put himself out there to be a champion of these issues. It is something that is very important and that I think will bear a lot of fruit in the future. I wish him the best of luck in his continued talks. Thank you.

Concluding Remarks, by Barbara Jesson

I want to reiterate that, Mr. Araya, it was a very interesting talk, and I am delighted that we welcomed you to the Club, today. I also want to thank Mike Eppel, who gave us his time and shared the discussion with Mr. Araya. That was wonderful, and we hope we will see you back at our club, again, Mr. Eppel.

I also want to thank our sponsors, Osler, Hoskins & Harcourt, for making this event possible. Without sponsors like these great companies, the Empire Club lunches would not be possible. Thank you, once again, for your generous support.

We would also like to thank mediaevents.ca, Canada's online event space, for live webcasting today's event to thousands of viewers around the world.

Although our club has been around since 1903, we have moved into the 21st century, and we are active on social media. Please, follow us on Twitter @Empire_Club, and visit us online at www.empireclub.org. You can also follow us on Facebook, LinkedIn and on Instagram.

Finally, please, join again soon at our next event on October 12th. The Honourable Mélanie Joly, Minister of Canadian Heritage, will be here on One King West.

Thank you for your attendance.

This meeting is now adjourned.