

1996

NEWS

2006

## 2005 — THE YEAR THAT FLEW BY

Since we opened our business, I don't think any year has gone by as fast as 2005. Business was good as many things came together for Cigar Studio; the best spring, summer and fall weather ever; a strong local economy; loyal patronage and referrals by our customers; well attended special events; and ramped up product innovation and development of new cigars and specialty tobaccos. All of these factors contributed to the fast pace we experienced in 2005.

So as we close the books on 2005, let me take this chance to express my gratitude again to all of you. We really appreciate you making Cigar Studio one of your stops in your busy lives. And a big thanks to Shawn. You can't succeed in our business without a "Shawn" and I am very lucky and grateful for his commitment and dedication. Thanks man!

So What's in Store in 2006? Much more of the same. In fact, as we take advantage of the slower winter months to plan this year, I think 2006 may be even more exciting than last year. Three activities will impact our business environment and mood as we move into the new year. I call these the good, the bad and the ugly.

**The Good** - Cigar Studio's 10<sup>th</sup> Anniversary. We sold our first cigar in April of 1996 at the height of the boom, when we hardly knew what we were doing. Our first location on Horner Ave quickly led to a short lease at Sherway before we opened here. Talk about a fast 10 years. We are going to have as much fun with the Anniversary as possible.

**The Bad** - Bill 164. The Ontario law – called the Smoke Free Ontario Act - was passed on June 13, 2005 and comes into effect on June 1 this year. It will increase bans on smoking in enclosed public places and further enforce restrictions on the promotion, handling and display of tobacco products in retail stores. This may offset some of the fun.

## UPCOMING EVENTS

There are no changes to smoking regulations in Toronto until June. So we are planning our regular cigar tastings and here is the first event planned for the winter months.

**International Wines meet Dominican Robustos at Santa Monica Trattoria:** On Tuesday February 7<sup>th</sup>, we are hosting a wine and cigar tasting at one of our favorite trattoria's. Guests will receive 3 robusto cigars from the Leon Jimenes brands, each providing a very distinctive flavor and finish; the Connecticut shade natural, the maduro and the Leoninos. Paul Alic, our Maitre D'/Host will present everyone with 3 wines he has brought in for this event; from Italy, the Montepulciano D'Abruzzo Limfa; from Italy, the Santa Andrea Preludio Allo Notte; and from south east Australia, a terrific merlot from Kingston Estates. Tickets, available at the store, are \$60 each and include shrimp, scallops, portobello and sausage appetizers. Santa Monica Trattoria is located at 666 The Queensway, 3 blocks east of Royal York Rd on the north side.

**Habanos Festival – Havana Cuba, February 28 to March 4:** The 8<sup>th</sup> Annual Habanos Festival is celebrating Cohiba's 40<sup>th</sup> Anniversary this year. While usually directed to trade, I have taken customers to this before who enjoy the buzz of the City during the Festival. There are a lot of activities planned, some are cheap some are expensive and we don't go to them all. But we do enjoy some great cigars and this year they will be the best – Cohiba. If you are interested in joining us, give us a call or drop by.

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**The Ugly** – Cigar Studio's owner will have turned 50 by the time you get this newsletter. My guess is it may charge him up even more.

The rest of this Newsletter will be focused on The Bad and The Good.

## AN OVERVIEW OF BILL 164

Over the next several months, the media will begin to spend an increasing amount of time and coverage on Bill 164. Given the impact that the Bill will have on the tobacco industry and on smokers' rights in Ontario, I am going to devote a significant amount of this Newsletter to an overview of the bill. I will do my best to remain objective as I summarize the law for you and leave my personal comments until the end (at least most of them)..

### What is Bill 164?

Bill 164, the Smoke Free Ontario Act, is the Tobacco Control Act of 1994 amended by the Tobacco Control Statute Law Amendment Act, passed into law in June of 2005. It comes into effect June 1, 2006. It will supersede all municipal smoking laws and harmonize all local tobacco rules into one tobacco enforcement policy. In its simplest form, the law deals with 2 specific areas of tobacco control.

**1)** It increases the restrictions on the promotion, handling, display and selling of tobacco products in retail establishments. In other words it impacts the merchandising and display of tobacco everywhere from gas stations to convenience stores to tobacco shops while insuring that all tobacco which is sold complies with stricter health warnings. The law does provide an opportunity for retailers who are classified as "specialty tobacconists" to be exempt from the display provisions of the law with the exemption subject to one or more conditions as defined by the government.

**2)** It increases the bans on smoking in enclosed public spaces, in enclosed workplaces and "prescribed places" to the extent that all smoking – bars, restaurants, casinos, private clubs etc – will no longer be legal in Ontario.

### The Display Ban

This ban rolls out over 2 years. Effective June 1, retailers who sell tobacco will no longer be able to use counter displays to show products. Those plastic cases that display Colts and White Owls etc. are illegal as of that date. It will also be illegal for store owners to display cartons of cigarettes - only individual packs will be allowed to be visible on the store's back wall. Promotional lighting, panels, and signs are also all illegal as of June 1 with the government retaining sole right to determine what is promotional material. Clearly the look of your local convenience store and the counter of your local gas station will change dramatically on June 1. It will change again on **June 1, 2008** when it will be illegal for any retailer who sells tobacco to display tobacco whatsoever! All tobacco will have to "hidden" from the consumer – in the back of the shop or behind a curtain, totally invisible to anyone – so that the only time a consumer will actually see their choice is after he/she has paid for it. Can you believe this? (sorry – I want to stay objective here). Er, nice eh?

The intention behind the government policy is to prevent the promotion and selling of cigarettes to minors and youths. It is their belief that kids who go into convenience stores to buy gum after school are unduly influenced and buy tobacco when they see a counter top display or cigarettes behind the counter. Notwithstanding very strict and legitimate laws that prohibit selling tobacco to minors, a 100% display ban is their way to achieve their objective.

Under regulations provided in the law, Cigar Studio and other members of the specialty tobacco industry in Ontario can, and have applied for, an exemption to the display ban. (Duty free shops can also apply, as can cash and carry wholesalers). On several occasions last year, we met with the Ontario government to present our case with respect to the display ban and its unintended impact on stores like Cigar Studio. Given the government's policy intention (reduce cigarette smoking among teenagers), combined with the good job our industry has done of explaining the difference between a) what we sell (no cigarettes) and b) who we

sell to (adults) compared to other retail channels, we expect to receive an exemption from the display ban. Display exemptions exist in places like Manitoba and New York – they have strict non-smoking laws - and will be granted in Quebec this year. We have proposed two conditions to obtain the exemption; prohibit minors in our stores, and define a tobacconist as a retail store where no less than 60% of the store revenue is tobacco and tobacco related accessories. (FYI, over 80% of our revenue is premium cigars, similar to most specialty tobacconists in Ontario). We will know this definition shortly.

You should be aware of something else. Conveniently, the government set the date for the display ban eight months after the mandated date of the next provincial election (October 4, 2007). Hopefully, Premier John Tory will find better balance and perspective on this issue.

### **The Smoking Ban**

This is very strict and clear. Almost every public place where smoking is now allowed and regulated - currently via local municipal bylaws - will see total bans. Notwithstanding the designated rooms that many bars put into place under their local bylaws, Bill 164 shuts them all down. Bill 164 allows the government to define what an inside area is (a patio with a garden trellis cover?), what an enclosed workplace is (a mechanics open garage?) and why private clubs are not exempt (it is an enclosed workplace). Bill 164 does define those facilities where smoking will still be permitted. These include retirement and nursing homes, psychiatric hospitals and veterans' hospitals as long as they have controlled smoking rooms. In addition smoking can be permitted in hotel rooms if the hotel designates rooms as smoking rooms and the room is just for sleeping (smoking is prohibited in banquet rooms). Finally smoking is permitted in "scientific and research facilities" (I'm not kidding here), thereby allowing universities to conduct tobacco research. The law requires that employers post no-smoking signs and makes the employer responsible to insure that all employees comply with the law.

For the time being, you can smoke in your home and in your car. But you are no longer allowed to shower with hot water between 11PM and 6AM, nor can you hug or kiss your wife in front of your neighbor. Except on Tuesdays (OK, sorry). Er, nice eh?

At this point there are no provisions in the law to define regulations that grant exemptions from the smoking ban other than those places mentioned above. We have tried to present the private club argument as well, to see if special permits could be granted for closed cigar evenings. (like a liquor special occasion permit). The opportunity to use the definition of a tobacconist with respect to the display ban will not be permitted in Ontario (with respect to smoking) even though in places like Quebec and Manitoba and New York you can smoke in a tobacco shop (smoking is permitted in tobacco shops in those jurisdictions where their revenue is at least 50% tobacco).

There are politics galore on this issue. As we have said many time and as you will read in a moment, governments do not want anybody to stop smoking; if they did, they would outlaw tobacco totally. They could, but they won't because governments are the largest shareholders in the tobacco business and they make more profit on tobacco than every tobacco company in the country combined. And equally convenient for them, the law has a strong political attraction – the government knows the majority of the 80% of non-smokers in Ontario are not really concerned about the wishes of the 20% who do. Some experts have even suggested that the only way our current Premier can win any points (and bargaining power) with the medical profession in Ontario is to enforce this total ban.

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## VALENTINES—THE MASSACRE IS ON

You know our attitude about Boxing Day/Week Sales. We keep our regular prices for the first month of the year and then wait for suppliers to call us with “stuff” they were not able to sell over Christmas and are now offering at 50% off or better. We also take the opportunity to sell our dogs that did not turnover in 2005 – (personally I thought the light blue handle razor looked nice, but apparently no one else does) – and clean up a little as we get ready to receive the first new items and cigars for 2006. In addition to all sorts of deals on accessories and pipes, we clear out 2005 Forchino and Laguiole, and offer great deals on everything from the humidor cabinet (\$1,000 all in, regular \$1500) to older copies of CA magazine \$4 each or 6 for \$20. We call it our St. Valentines Massacre and it runs from February 1<sup>st</sup> through to February 14<sup>th</sup>. Prices are great and don't hesitate to insult us with an offer if there is something you really want.

### **Ban—Continued from page 3**

So what happens next and what does all this mean?

The impact of Bill 164 on businesses is dependent on a wide range of factors. Some bars which currently permit smoking will suffer, others not. Private clubs which have cigar rooms may see increased turnover, others not. Some retailers that sell tobacco – from convenience to specialty shops like ours will suffer, others may not. But we are optimists so here is why I think the Bill will have little impact on Cigar Studio.

Our industry has been operating in an environment of increasing “anti” activity since we opened in 1996 and I would say that activity, per se, has been “progress” for the anti lobby. The same law that says tobacco companies can't sponsor jazz festivals or car races, prohibits me from advertising and using traditional media to promote Cigar Studio. When we did our first event in the winter of 1997, you could enjoy a cigar almost anywhere in any bar or restaurant. Try to name them today. But instead of closing down, the tobacco industry has managed to keep going with the support of consenting adults who are frustrated at the government telling them how to run their lives. Yes there have been casualties at both retail and wholesale levels, yet those that are still going are capturing a larger share of a smaller pie and continue to move forward.

I do not believe the smoking ban will impact Cigar Studio sales significantly. We know our core customers very well and less than 5% of volume is related to smoking indoors. And as Shawn and I have done in the past, when customer counts start to trend down, or we do lose someone to a New Years resolution, we have been successful at replacing that volume. And to repeat, cigar smoking is primarily an outdoor activity – anywhere from in your garage and on the deck, to at the cottage, walking the dog or on the golf course. There are many cigars smoked in the car –especially in the winter - and some of our customers have that “special place” in their home they call heaven where they go in the dead of winter. But the vast majority of the cigars we sell are enjoyed outdoors during the spring, summer and fall months.

The big impact on June 1, will be our ability to host cigar our events. These have been organized to allow like minded people to enjoy cigars in the company of friends and business associates. Our industry continues to work hard to see how this will play out but failing a legal challenge on our right to associate vis-a-via the Charter of Rights, or consultants finding a loophole within the law, our spring and early summer special events may be our last. Certainly things will be more boring out there, but business will continue.

### **Summary**

I will continue to do my best over the next 5 months to keep you up to date on what is going on with Bill 164. However, I will ask two things; first to think about the question of the amount of government involvement you want in your life and whether as an adult you want the ability to choose what you want to do to be dictated by Queens Park or any level of government. Secondly, I am also going to ask you to read one more thing and that is the insert I put in Cigar Studio News. The author is Ezra Levant, the Publisher of the Western Standard. This article appeared in the Winnipeg Sun this past October. It is one of the best commentaries on the governments' role in the tobacco industry that you will ever read.