Written Submission for the Pre-Budget Consultations in Advance of the Upcoming Federal Budget

Submitted by: The Convenience Industry Council of Canada

List of Recommendations

Recommendation #1: That the government not increase payroll or other small business taxes, and consider potential options to support small businesses recoup COVID-19 related expenditures through tax measures.

Recommendation #2: That the government deliver on the promises made in the 2019 election to eliminate the "swipe fee" on HST and GST paid by small businesses every time a credit card is used.

Recommendation #3: That the government adopt evidence-based policies on the regulation of age-restricted products (including vape and tobacco) that do not punish law-abiding convenience stores.

Recommendation #4: That the government undertake an updated study on the impact of contraband tobacco in Canada, including lost tax revenue resulting from this criminal activity.

Recommendation #5: That the government ensures regulatory certainty and predictability for small business in the wake of COVID-19. This includes proceeding with planned consultations impacting the availability of supplemented food and beverages in Canada.

CICC CONVENIENCE INDUSTRY COUNCIL OF CANADA
CCID CONSEIL CANADIEN DE L'INDUSTRIE DES DÉPANNEURS
where convenience and communities come together

About CICC

The CICC is a national association that brings together more than 25,000 convenience retailers across the country, as well as the distributors and manufacturers that comprise the convenience store supply chain. We proudly represent an industry that contributes over $22 billion in combined federal and provincial taxes, employs over 220,000 Canadians and brings convenience to communities from coast to coast to coast.

Recommendation #1: That the government not increase payroll or other small business taxes, and consider potential options to support small businesses recoup COVID-19 related expenditures through tax measures.

Like all businesses in Canada, convenience retailers are continuing to face unprecedented hardships due to the COVID-19 crisis:

- **DECREASED REVENUES:** Many convenience retailers across the country have seen a substantial decrease in both car and foot traffic, while stores with gas stations have been particularly hard hit. Members operating stores with gas bars have reported an average 40 percent drop in fuel sales.
- **INCREASED COSTS:** Retailers have been hit with higher variable and fixed costs of doing business. For example, the average store has spent $1,500 to remodel their store to align with public health objectives. These costs include the installation of physical barriers to guarantee social distancing, floor decals, and signage. Our stores report spending an additional $800 / month to provide PPE for employees, enhanced sanitation etc. Labour costs have also increased with many stores hiring additional staff and security personnel to ensure compliance with public health objectives.

To address the double-edged sword of decreased revenues and increased costs, the CICC is eager to work with our partners in government to find new ways to save our small businesses money, stimulate economic growth, and get the federal government on a sound financial footing that will benefit all Canadians. To do this, it is critical to keep taxation rates, particularly for small businesses, at current and predictable levels. This includes no moves to change payroll taxes beyond their existing rates.

Additionally, the government could look to consider incentives to support small businesses in adjusting their businesses to the new COVID-19 reality. For instance, our sister organization in the United States (NACS) have asked lawmakers to consider tax credits applied to payroll taxes for businesses who have invested in personal protective equipment, social distancing markers, cleaning and sanitation supplies to curb the spread of the coronavirus. There is a proposal currently before the Senate that would give a tax credit against payroll taxes for 50% of such operational expenses to businesses. Measures like this would offer needed relief from the increased operational expenses incurred from the virus.

Recommendation #2: That the government deliver on the promises made in the 2019 election to eliminate the "swipe fee" on HST and GST paid by small businesses every time a credit card is used.

Prior to COVID-19, approximately 30% of transactions at our stores were paid via credit card. During the pandemic, we have seen the percentage of customers using contactless payments go up significantly in place of cash. We anticipate this "new normal" for payments in our stores, which makes addressing swipe fees more necessary than ever before.

CICC took part in the August 2018 announcement that saw the Liberal government plan to reduce swipe fees from 1.5% to 1.4%. We also welcomed the commitment in the 2019 election campaign to eliminate the HST / GST on swipe fees paid by small businesses. To date, the reduction in overall fees has been delayed, while the commitment to remove the tax from swipe fees remains unimplemented.

Interchange fees are a major expenditure for our businesses. In 2018, convenience stores collected approximately $7.6 billion in GST from sales to our customers. Using conservative industry estimates, if 14% of non-gas purchases and 51% of gas purchases were paid by credit card, interchange fees would amount to $72.7 M ($6,888 per store selling gas). As taxes increase, so will the cost of processing their payments.

Small business advocates suggest as much as $500M could be saved annually should the HST/GST "swipe fee" be removed. We urge the government to deliver on the promises made in the 2019 Election to reduce excessive credit card swipe fees and reduce the cost of doing business for small business owners and operators.

Recommendation #3: That the government adopt evidence-based policies on the regulation of age-restricted products, including nicotine vape products, which do not unfairly target convenience stores.

Convenience stores remain one of the most consistent and responsible retailers of age-restricted products in Canada - including and the retail of liquid nicotine (vape) products. Since the introduction of legal e-cigarettes in May 2018, traditional tobacco sales have dropped 10% as adult consumers transition to reduced-risk products. At the same time, provinces such as Nova Scotia which have introduced sweeping vape restrictions have seen increases in regular tobacco usage, undermining public health objectives. Convenience stores are an important yet restricted access point for these adult products for smokers looking for reduced-harm alternatives.

Our stores - much like government officials - are alarmed by the prevalence of vaping amongst youth. Concerningly, there is a false perception held that our retailers are a source of vaping products to minors, when all available data show that the vast majority of underage users are not accessing them from our channel:

- A 2019 study from CAMH found that convenience stores were 'the least common source" of vaping products for youth. Borrowing from a friend topped the list (53.7%),

buying from a friend or someone else (11.2%), and purchasing from a specialty vape store (9.7%) rounded out the top three sources of vaping products for youth with convenience stores making up less than 1%.
- Health Canada compliance inspections of more than 1,000 specialty vape shops and 2,000 convenience retailers found non-compliance with federal vaping regulations at 84% of specialty vape shops, compared to 12% of convenience stores.
- Of mystery shops conducted to check for age verification compliance, 87% of convenience stores passed these tests, vs. just 20% for specialty "adult only" vape shops.

Recent changes to vape retail in Nova Scotia, British Columbia and Ontario wrongly position convenience stores as the access point for minors to obtain vape products. The result is less access for adult smokers looking to switch, and the profiteering of vape shops and an unregulated online market who are willing to sell to minors. It is key that federal polices for vape products be evidence-based, and not unfairly target convenience stores who have demonstrably followed the rules.

Recommendation #4: That the government undertake an updated study on the impact of contraband tobacco in Canada, including lost tax revenue resulting from this criminal activity.

In June, a two-year investigation led by various law enforcement officials disrupted an illegal manufacturing and distribution network trafficking illicit tobacco and cannabis, cocaine and fentanyl. In total, 11.5 million contraband cigarettes with a street value of over $3M was seized, dismantling sophisticated organized crime networks in Ontario, Quebec and British Columbia. The seizure represented $3.3 million in uncollected tax for federal and provincial governments resulting from the bust. This investigation is one of several that show the continued prevalence of contraband tobacco in Canada.

Beyond what is reported in the news, there are no existing indicators of the level of contraband use in Canada, or an identification of where illegal tobacco hotspots may exist. While our Association used to conduct contraband "butt studies" as a means of determining prevalence of contraband tobacco across the country, this is no longer possible due to the standardization of cigarettes and elimination of branding from cigarette sticks.

Based on reports from our members, COVID-19 is having an impact on contraband tobacco use. Specifically, retail locations operating near First Nations reserves have noted an increase in tobacco sales at their locations, correlating directly with the temporary closure of reserves to non-Indigenous residents during the height of the pandemic. Legal tobacco sales then declined when reserves reopened to the broader public. While anecdotal, the accessibility of contraband appears to be having a direct impact on the legal market, as consumers look for cheaper, tax free products. This presents a clear need to act on contraband offences in order to collect the taxes being evaded.

To get a better understanding of the scope of the contraband issue in Canada, and in particular the lost tax revenue resulting from this illegal activity, we ask the federal government to undertake new research and study on this issue. Our stores are still observing contraband activity, but the depth of the problem and possible solutions can only be assessed in coordination with the government.

Recommendation #5: That the government ensures regulatory certainty and predictability for small business in the wake of COVID-19. This includes proceeding with planned consultations impacting the availability of supplemented food and beverages in Canada.

Convenience stores are some of the most regulated small businesses in the country. While it is not always possible to eliminate and reduce regulations in our business, regulatory certainty and predictability is often just as valuable for our small business owners. For example, we were very appreciative of the government's efforts to recognize the logistical challenge new vaping regulations posed for convenience stores, and the consideration provided for a reasonable transition that would observe social distancing and public health guidelines.

Consideration should be given to the impact new regulatory initiatives that are not already in process would have on our industry and other small businesses. For example, fast-tracking Marketing to Kids policies and regulations would have sizeable impacts on our members and potentially for our retailers, at a time when most stores are struggling to keep their heads above water. New regulatory initiatives should have the small business lens applied, and particular weight should be given on the industry's ability to properly follow and implement new policies in a timely fashion.

At the same time, there are existing regulatory reviews and processes that our members and stores are relying on continuing for business predictability. In particular, Health Canada was poised to launch a public consultation on Supplemented Foods in Fall 2020 – as confirmed in the *Forward Regulatory Plan 2019-2021: Modernize food regulations to enable innovative and safe foods for Canadians* and complete the regulatory process in 2021. This consultation is of major importance to members and shoppers who consume supplemented food and beverages as well as caffeinated energy drinks.

Recently, we've been informed that this consultation may be delayed. While we understand 2021 remains the goal date to complete the regulatory process, we're eager to finalize the regulatory regime to bring greater predictability and confidence for the sector. Not only will these changes help modernize Canada's regulatory landscape, but it will also increase competitiveness and innovation in the food and beverage sector.

Given the popularity of these products, the importance of business certainty, and the potential ramifications for our small businesses, we urge Health Canada to remain committed to the intended regulatory consultation timeline for Supplemented Foods.