Written Submission for the Pre-Budget Consultations in Advance of the 2025 Federal Budget

By: Convenience Industry Council of Canada

March 7th, 2025

Summary of Recommendations:

Recommendation 1: Remove credit card interchange fees on the tax portion of sales made by credit card, as was committed to in 2019.

Recommendation 2: Allocate additional federal funding to address the sale of illegal, contraband tobacco in Canada, which will cut off funding to organized crime groups trafficking fentanyl and firearms.

Recommendation 3: Return reduced-risk Nicotine Replacement Therapies (NRTs), including nicotine pouches, for retail in convenience stores.

Recommendation 4: Halt all planned increase to the federal excise tax on alcohol.

The Outlook for Canada’s Corner Stores

As the voice of Canada’s convenience industry, the Convenience Industry Council of Canada (CICC) advocates on behalf of 21,000 stores, employing 188,000 Canadians.

While we face the same challenges as other industries, including skyrocketing inflation, labour shortages and supply chain challenges, the convenience industry is Canada’s most unique retail sector, due to its role as a major tax collector for governments stemming from the types of products retailed at our stores.

As a result, we face specific obstacles that require direct attention from governments. The impact of exorbitant credit card interchange fees, combined with the disproportionate taxation on the products we sell, financial losses stemming from the illicit tobacco trade, restrictions on nicotine replacement therapies and increases to the federal excise tax on alcohol all threaten the viability of Canada’s convenience sector.

Fewer stores, lower sales and a reduced labour force are not new trends, but they are adversely impacting the convenience industry’s ability to support Canadian communities. Over the past three years, Canada lost between 1.5 to three 3 convenience stores every day. Most closures are taking place in rural and remote communities, where convenience stores are often the only suppliers of essential products. These challenges are not new, but they’ve come acutely into focus given continued economic uncertainty and operational pressures.

The threat of proposed U.S. tariffs on Canada on the aluminum cans for beverages sold in our stores to our staple confectionary products, will have a direct impact on both consumers and retailers. That is why we are asking for practical steps to be taken that will ease the burden on our businesses, and customers, so that we can continue to be present in communities across Canada.

Recommendation 1: Remove interchange fees on the tax portion of sales made by credit card, as was committed to in 2019.

Convenience stores in Canada are major tax collectors for governments. In fact, we collect more taxes than any other retail sector due to the highly taxed products we sell, including fuel and tobacco. In 2022, our members collected more than $24.2 billion—$11.4 billion for the federal government alone.

As a result of the pandemic, consumers have made a major shift to “touchless” digital payments. Close to 80% of all gas purchases are made via credit. These fees represent the second-highest cost to our stores, next only to payroll. We also face a double whammy on credit card fees, as we pay an interchange fee on the product sold and on the taxes of that product.

Our retailers are being financially punished for being a tax collector for the government. Due to the heavily taxed products we sell, 48% of sales are tax alone. To remain competitive and offer the convenience and choice our customers both expect and demand, our members have no other choice than to absorb the cost of collecting taxes.

Budget 2023 promised a reduction of the interchange fees paid by businesses that accept credit card payments, and while the fees were capped at 1%, under current government policy, that reduction only helps the smallest of businesses in Canada. This policy excludes most convenience retailers who accept credit cards while allowing banks and credit card companies to force local retailers to pay for their credit card loyalty programs. What's worse, large corporations like Wal-Mart or Costco have the negotiating power to demand better rates, leaving a huge swath of SMEs without any solution to this growing business cost.

Given the amount of tax collected by our stores and the fact that interchange fees are charged on both the pre-tax and tax amounts of a credit card purchase, **we recommend that the government remove interchange fees on the tax portion of a credit card purchase**. This would save convenience stores, on average, $30,000 annually.

As Budget 2023 and 2024 rightfully pointed out, interchange fees in Canada are high, and reducing them puts more money back in the pockets of business owners. Given the unique nature of our businesses, reinvesting that money saved on interchange fees back into the business would make a meaningful difference for many of our retailers, and help them expand and solidify their businesses in their communities, as we navigate the post-pandemic realities.

Recommendation 2: Allocate additional federal funding to address the sale of illegal, contraband tobacco in Canada.

Addressing contraband tobacco is critical to disrupting organized crime networks, who use the proceeds of the sale of contraband to finance other illicit activity, including fentanyl production and trafficking.

Local convenience stores are the largest retailer of legal nicotine products in the country. Our industry has been sounding the alarm about the illegal tobacco trade for years, both in terms of its impacts to our business, and the safety of our communities.

Absent government data, our council regularly commissions studies to assess the size and scope of the illicit tobacco trade in Canada. A 2024 study conducted by EY Canada for CICC revealed that the contraband market is booming, in some cases surpassing legal sales. We also conducted a similar study in 2023, and below you will find the market share of illicit tobacco by province.

Study Year	Province	Market Share % of Illicit Tobacco
2023	British Columbia	45.0%
2023	Newfoundland and Labrador	44.0%
2023	Ontario	50.0%
2024	Alberta	29.0%
2024	Quebec	11.9%
2024	Nova Scotia	38.4%
2024	Manitoba	45.0%
2024	New Brunswick	52.0%

As documented by Canada Border Services Agency, the illicit tobacco trade in Canada funds organized crime and the drugs and weapons they traffic across our southern border. According to the Canada Border Services Agency, between January and October 31, 2024, more than 1.7 million kilograms of illegal tobacco were seized at ports of entry in Southern Ontario. That's equivalent to 116 tractor trailer loads full of tobacco.

Inaction on the contraband tobacco file translates into inaction on public safety issues. Sales of illicit tobacco fund organized crime and other criminal activity. Contraband tobacco seizures are often accompanied by the seizure of illicit drugs and firearms, with the RCMP noting that proceeds from contraband tobacco contribute to organized criminal activity across the country.

But despite this noted link between the illicit tobacco trade and organized crime, the RCMP unit dedicated to addressing contraband tobacco has not received a funding increase since its inception in 2008. The Contraband Tobacco Task Force is only allocated $3M a year to deal with what is understood to be a multi-billion-dollar illegal industry.

It is clear that Canada is now focused on disrupting organized crime networks, and the activities they undertake that undermine public safety, including fentanyl production. To do this effectively, the financing of this activity - made possible through the trafficking of contraband tobacco - must be addressed.

To that end, we hope Finance Canada will consider resourcing the following in Budget 2025:

- Introduce a moratorium on new tobacco taxes.
- Dedicate further resources to investigate, arrest and prosecute offenders, through either the RCMP's contraband tobacco task force or through the new joint task force on organized crime.

- Dedicate specific resources to addressing the prevalence of the illicit online tobacco market, by working to shut down websites selling illegal goods.
- Increase fines for offences to be commensurate with those applied to legal retail licensees.
- Enable investigators to retain proceeds of crime to fund further enforcement activities.
- Apply external assessment authorities for those arrested for selling contraband tobacco.
- A public awareness campaign on contraband vs. legal tobacco, and its risks.

Provinces across Canada, most recently Alberta, are also advocating for stronger federal action. In its most recent budget, Alberta made a commitment to advocate for stronger federal action. They noted: "Contraband tobacco crosses provincial and international borders, so Alberta will advocate for the federal government to fulfill its responsibility to address this critical national issue."

Recommendation 3: Return reduced-risk Nicotine Replacement Therapies (NRTs), like pouches, for retail in corner stores.

The ministerial powers provided to the Minister of Health in Budget 2024 on the regulation of Natural Health Products have unfairly and arbitrarily penalized convenience stores. The use of Ministerial authority to create regulations around NHPs, and by extension, NRTs, without evidence is a serious concern for our local businesses and should be a concern for any retailer in Canada who sells, or wishes to sell, these products.

There are numerous reasons why this restriction on place of sale is unreasonable:

- There is no evidence to suggest that convenience stores were the source of NRTs, including nicotine pouches, for young people. In fact, youth vaping continues to grow in provinces such as British Columbia where they banned the sale of flavoured vaping products from convenience stores. We are clearly not the source of youth access.
- It is hypocritical to suggest convenience stores cannot be trusted to retail NRTs to adults, while at the same time allowing the sale of age-gated products, like cigarettes, in our stores.
- Removing access to a cessation product from the place where adult users of legal tobacco purchase their products has created a barrier to the use of authorized, safe, and effective treatments for adults trying to quit smoking. PHAC has published a recent study highlighting the benefits of pouches for those trying to quit.
- By restricting access to pharmacies, the needs of adult consumers in rural and remote areas have been ignored, and they now face a new barrier to accessing cessation products.
- Current restrictions on the sale of NRTs **do not include** requirements to age-test the product, meaning they are still available to youth.
- NRT users, including minors, are able to easily go online to purchase these products - many of which are not approved by Health Canada, and are sold without taxes or duties paid. See examples here.

We want to state clearly that our stores support strict regulations for NRTs, including nicotine pouches. However, the decision to remove these products from our stores was without merit and has come with significant consequences for adult consumers and legal retailers, while leading to increased access for youth. We ask that the government remove the point-of-sale restrictions on these products and allow our stores to responsibly retail them once again.

Recommendation 4: Halt all increases to the Federal excise tax on alcohol.

Canadians are already grappling with higher prices for food, energy, and rent. Higher federal beer, wine and spirit taxes have put further upward pressure on retail prices; an excise tax increase, coupled with potential tariffs on aluminum, will increase beverage costs for Canadians shopping in our stores.

While we are only permitted to sell beer, wine, and ready to drink cocktails in convenience stores in Quebec and Ontario, and beer in Newfoundland and Labrador, the beer category represents one of the top growing categories in the convenience industry. As we see a decrease in other product categories, it is essential for us to remain competitive when selling these products.

Regular excise tax increases, even capped at 2%, are a triple threat for Canada's convenience stores: it makes prices higher for our customers thereby impacting sales and traffic, and convenience store owners are out of pocket because they are required to pay interchange fees on taxes. Moreover, inflation-indexed tax rate increases such as those included under Canada's Excise Act adds to inflation, making the Bank of Canada's objective of returning CPI inflation to its mid-term target of 2% more difficult.

We ask that the government revisit the automatic escalator of this tax. We do not support regular increases to the excise tax on alcohol. We join brewers, wineries, spirit producers, farmers, maltsters, unions, economists, and consumers calling for a complete freeze on federal beer, wine and spirits taxes.