Convenience Industry Council of Canada

Pre-budget Submission to the
House of Commons Standing Committee on Finance

August 4, 2023

Background

As the voice of Canada's convenience industry, the Convenience Industry Council of Canada (CICC) advocates on behalf of 22,500 retailers across the country that contribute more than $22 billion in combined federal and provincial taxes, while employing 193,000 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.

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, in addition to the bottom-line impact of a soaring contraband tobacco market, are all threatening the viability of Canada's convenience sector.

Recently, a major distributor in our industry filed for creditor protection, threatening northern and remote communities as a direct result of weathering business challenges during the pandemic including decreasing revenues due to a growing contraband tobacco market.

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. Since 2021, three convenience stores closed their doors for good, every single day in Canada. From 2017, the number of convenience stores in the country has shrunk by 17.5%. The majority of these closures are taking place in rural and remote communities, where convenience stores are often the only supplier of essential products. As a result, these communities must source these products from other areas.

These challenges are not new, but they've come acutely into focus given continued economic uncertainty and operational pressures. We need action from government in order to continue to be viable in a post-pandemic economy. With this in mind, we offer the following recommendations for Budget 2024:

1. **Remove credit card interchange fees on the tax portion of sales made by credit card, as was committed in 2019.**
2. **Allocate additional federal funding to address the sale of illegal, contraband tobacco in Canada.**
3. **Help our small- and medium-sized businesses address labour shortages by expanding access to employees who can work in our industry.**

Recommendation 1: Remove credit card interchange fees on tax portion of sales

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 2021, our members collected more than $22 billion – $9.2 billion for the federal government alone.

As a result of the pandemic, there has been a major shift by consumers to "touchless" digital payments. Our research indicates that in 2022, over half of all gas purchases at our stores were made via credit card. In just the last 12 months, credit card fees have increased by 55% and are continuing to rise on a monthly basis.

These fees represent the second-highest cost to Canada's convenience stores, next only to payroll. We also face a double whammy on credit card fees, as we pay both an interchange fee on the product sold as well as on the taxes of that product.

Our retailers are being financially punished for being a tax collector for government on all credit card purchases. In fact, 42% of sales in our stores are tax alone, due to the heavily taxed products we sell including gasoline, tobacco and alcohol. And in an effort 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 those taxes.

The chart below illustrates the impact on credit card merchant fees, using increased fuel costs in Atlantic Canada as an example, which demonstrates that with regulated gas prices, retailers lose $1.81 per transaction, despite the huge increase in the price per litre:

CREDIT CARD MERCHANT FEE IMPACT

	May-21	May-22
	$	$
Regular self-serve maximum	1.459	2.184
100 litres	145.90	218.40
Gross profit (9.5 cpl)	9.50	9.50
Merchant card fee (2.5% average)	3.65	5.46
Balance	5.85	4.04

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 is only captured by the smallest of microbusinesses in Canada. This policy excludes the vast majority of 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 than small businesses, leaving a huge swath of small and medium sized businesses without any solution to this growing business cost.

Given the huge 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**, to alleviate the burden of interchange fees on more small business owners like our stores. The 2019 Liberal Party platform promised to, “[eliminate] the ‘swipe fee’ on HST and GST for credit transactions – which will save businesses nearly $500 million a year in fees,” saving convenience stores, on average, $30,000 annually.

As Budget 2023 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: Funding to address contraband tobacco sales

Contraband tobacco is a significant issue impacting every single Canadian province from the Atlantic to the Pacific. Contraband cigarettes are approximately 60% cheaper than legal tobacco. This is a multi-billion dollar illicit market that fuels criminal gang and organized crime activity, while undermining public health objectives.

Two reports, conducted by EY and commissioned by CICC, have examined the extent of the illegal cigarette market in Canada since 2020. The first study found that, during the pandemic, sales of illegal cigarettes declined significantly, corresponding with the temporary closure of illegal tobacco manufacturing facilities. Meanwhile, sales of legal tobacco products increased across the country.

The first report estimates that legal cigarette sales increased by more than 20% at their peak in June 2020, compared to sales from June 2019. With this increase in legal sales, provincial tax revenues increased by almost $32 million in one month alone. Similarly, federal excise duties increased by more than $18 million in June 2020, providing more than a $50-million increase in tax revenues to both provincial and federal governments.

However, the increased legal sales and associated tax revenue didn’t last long; once illegal manufacturing sites reopened in July, sales of legal products declined sharply, ceding the market share and revenue back to the illegal sales operations.

More recent data paints an equally stark picture. Using sales data from tobacco manufacturers, EY noted sharp declines in the sale of legal tobacco since 2019 in British Columbia (down 33.1%), Ontario (down 20.2%), and Newfoundland (down 49.5%). This does not correlate with smoking cessation rates, meaning that legal sales are moving to the contraband market. EY goes on to estimate that 31% of the cigarette market in BC, 38.7% of the market in Ontario and 31% of the market in Newfoundland represent illegal sales.

A flourishing contraband tobacco market paints a bleak financial picture for governments. The most recent EY report estimates lost tobacco tax revenue in B.C. of over $200M annually, $25M in Newfoundland and a staggering $1bilion in Ontario. That does not include losses in other provincial taxes, including sales tax and business / personal income taxes that are associated with this reduction in legal sales.

Inaction on the contraband tobacco file translates into inaction on public safety issues. Often, sales of illicit tobacco funds 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.

Contraband traffickers and purchasers have also gotten more creative in how to sell and obtain their products. For example, our research suggests that many contraband tobacco sellers use Canada Post as a means to ship their products to consumers ordering online. To that end, our recommendations are two-fold: **allocate funding to Canada Post to be able to better enforce the law around using their services to distribute illegal products, given that they currently do not have the means to do so; while at the same time, increasing the RCMP budget for addressing contraband products, which has remained far too low for far too long.**

The RCMP was initially allocated $3 million per year to address contraband, when the Contraband Tobacco Enforcement Strategy was first unveiled in 2008. Since then, their budget for enforcement has remained the same, while the contraband problem has only continued to grow. Increased funding for RCMP enforcement would mean greater resources for cracking down on criminal activity that profits from the sale of contraband tobacco. Additionally, many organizations looking to distribute illicit tobacco in Canada turn to Canada Post, to use their rapid shipping options, to deliver contraband to Canadians. Increased funding for the Crown Corporation would allow it to devote more resources to stopping the illegal use of their services for shipping contraband across the country.

CICC has long advocated to all levels of government that significant and meaningful action needs to be taken immediately to address the pan Canadian problem. Without government intervention to properly enforce regulations and laws around tobacco manufacturing and sales, it is impossible for law-abiding convenience stores to legal tobacco products. Canadian businesses lose profits, the government loses tax revenue, and organized crime continues to thrive.

Recommendation 3: Addressing ongoing labour shortages

With 193,000 workers, there are 41,000 fewer employees in Canada's convenience industry than there were in 2017. That translates into a 17.5% decrease in the workforce.

The pandemic undoubtedly played a major role in leaving its mark on the convenience channel labour force, accounting for approximately half of the decline in the number of workers. This is an astonishing statistic, considering that stores were deemed essential and remained open during the height of the pandemic, serving communities day and night.

In a recent CICC member survey, labour shortages topped the list of major challenges. Retailers identified a whopping turnover rate of more than 64% nationally, with Atlantic Canada indicating that almost 9 out of every 10 workers leave their positions. Alberta had the highest worker retention rate, at 84 per cent.

Our stores are struggling to find appropriately skilled retail clerks and other retail service employees which has placed a significant strain on our ability to keep our stores staffed and open. While this is not exclusive to the convenience store channel, the competition for workers is extremely high in every sector of the retail industry. Further complicating our labour shortage is the decrease in immigration during the pandemic. The convenience industry often offers newcomers to Canada their first work experience. For many immigrants, convenience stores serve as an introduction to the community, the language, and serves as a stepping-stone to other work.

CICC is asking the federal government to work with our industry and identify strategies that help address the labour shortages. This includes enticing the domestic workforce, but also reviewing programs like the Temporary Foreign Worker (TFW) program to make it easier for the convenience sector to hire TFWs to fill immediate gaps within our industry.