



Retail Council of Canada

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Retail Council of Canada (RCC) comments on the Government of Canada's notice of intent to impose countermeasures against the United States

Retail Council of Canada appreciates the opportunity to provide comments to inform the Government of Canada's decisions on retaliatory measures in response to the United States Government's imposition of tariffs on imported Canadian aluminum and steel. We expect that these comments will lead to further discussion both prior to and after the imposition of any retaliatory measures.

Context Within NAFTA Negotiations

Unsurprisingly, retailers are increasingly concerned with the tenor of trade relations with the United States. Retailers are strong supporters of the NAFTA agreement and have been actively engaged on both sides of the border in pressing for a renewal of the Agreement on fair terms. RCC has confidence in the manner in which the Canadian negotiating team is conducting negotiations and is particularly appreciative of the resolve shown to continue to ensure a level playing field on the tax and duty treatment of goods purchased online and shipped to Canada by post or courier (*de minimis*).

RCC deplores what we see as the U.S. Government's pressure tactics to conclude a lopsided NAFTA agreement, including the imposition of tariffs on Canadian aluminum and steel exports to the United States. While it might be expected that retailers' sole concern would be the potential impact of retaliatory tariffs, that is not the case. Early in the NAFTA renegotiation process, RCC commissioned a study on the potential impact of a trade war. This study, by management consultancy firm A.T. Kearney, examines both the cost impacts of higher tariffs and the effect on Canadians' incomes of a trade war (access the full report from the landing page <https://www.atkearney.com/retail/the-end-of-nafta>). Its conclusion is that for every 1% increase in across the board tariffs on imports from the U.S., Canadian retailers would see a \$1 billion increase in cost of goods. The study also looks at the indirect cost of tariff increases, with reduced consumer spending, as Canadian household incomes would feel the effects of slower growth. The cumulative impact on retail sales of direct and indirect effects was estimated at between \$4 billion and \$25 billion depending on the scenario. Self-evidently, retailers want to see the avoidance of an all-out trade war, with its potentially severe consequences.

RCC understands the need for Canada to respond assertively to the U.S. Government's imposition of aluminum and steel tariffs. We recognize that the Canadian government is striving to act within a contained list of goods and that its goal is to avoid a broadening of the dispute and work toward a return to normalcy in Canada-U.S. trade relations. RCC nevertheless has concerns about the potential imposition of tariffs on several of the categories listed on Table 2 in the *Notice of intent to impose countermeasures action against the United States in response to tariffs on Canadian steel and aluminum products*.



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Equitable Allocation of Retaliatory Measures

RCC notes with concern that while the total value of U.S. goods identified by the Government of Canada in its Tables 1 & 2 is not stated, a very significant amount falls within retail and consumer categories. Based on 2017 annual data from the *Canadian International Merchandise Trade* (CIMT) database, an assessment of the items listed in Table 2 suggests that approximately \$10 billion of retail goods imported from the United States are included (see Figure 1 below). We have highlighted 52 categories below which are entirely or primarily purchased by consumers from retailers. Although some of the imports in these categories are inputs into food services, hospitality and other industries, there are also goods in categories beyond the 52 which have an impact on retailers and consumers, notably in home-improvement and gardening (aluminum doors and windows, plywood, electrical control panels, herbicides, insecticides and fungicides) and copier paper.

While recognizing that Tables 1 & 2 form a “pool” from which the targeted items will be drawn rather than a final list, the inclusion of such an extensive list of retail goods raises concern that retailers and consumers could bear a disproportionate burden of the Canadian response to U.S. tariffs on what are essentially industrial inputs. While supporting the need to retaliate against unreasonable U.S. measures on steel and aluminum, RCC notes that our sector’s share of GDP is below those of manufacturing, natural resources and construction, all of which are major consumers of goods identified in Table 1 and parts of Table 2. In short, we believe that retailers’ and consumers’ share of the burden of responding to U.S. tariffs should be equitable and demonstrably so. **RECOMMENDATION:** *RCC proposes that the Government of Canada provide data on the expected cost impact in each HS Code category selected for retaliatory action on July 1, 2018 and the apportionment of those costs between the various sectors comprising the Canadian economy.*

Substitutability Challenges

RCC appreciates the effort made by the Government of Canada to target goods that it presumes to be substitutable by goods sourced domestically or from other non-U.S. countries. However, substitutability for some of these goods may be something of a mirage, especially in the near-term. In some cases, the challenge is sourcing an adequate supply. Many of the categories selected currently see U.S. import shares at 80% or even upwards of 90% of all imports to Canada. To presume that there is adequate near-term supply available domestically or from other countries may be unreasonably optimistic, depending on the category. By way of example, one of our large members has sought assurances from Canadian vendors of **copier and printer paper** (480256), only to be told that domestic vendors cannot meet its volume needs and that the products can only be sourced from the United States. Another has been told that the Canadian textile industry cannot meet its needs on **bedding** (949490), which also faces the problem of 14% MFN tariffs when sourced from vendors in Asia (see *Particular Challenges* section below).

In addition, retailers have lengthy supply contracts for many of their goods and legal liability for the completion of those contracts. The supply chain is such that sources of goods can not be switched quickly or easily. Our members express concern that many suppliers have no production in Canada and that it will take a number of months at minimum to develop this. Until such time, price increases will impact the consumer.



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There is also a question, especially on higher-value products, of alternative suppliers' willingness to scale-up production to meet increased Canadian demand, given the uncertainties as to how long this trade dispute will last. This problem is exacerbated for "private-label" products, or retailer-specific bulk products, for which there would be no other market for the goods and/or their packaging in the event that the trade dispute settles and the retailer wishes to return to its original U.S. supplier. Vendors' solution will be to seek enforceable long-term commitments, diminishing retailers' flexibility on their product mix even after dispute with the U.S. is resolved. Lastly, it would be fanciful to imagine that in the face of increased demand from Canadian retailers and with diminished tariff free supply available, that domestic and foreign vendors would not increase their prices.

Even where substitute products may be available, there are a multitude of operational challenges posed to retailers. Reconfiguration of in-store merchandising, websites and marketing material will be extensive. Canadian language and labelling requirements and safety standards could restrict the availability of supply where Canadian manufacturers cannot meet the need.

An additional and important concern is whether substitutable products are available in sufficient quantities on a *tariff-free* basis. There is little point in including items that may be substitutable if the alternative sources are subject to tariffs approaching, at or above the 10% tariff to be levied on imports from the U.S., as retailers and ultimately, consumers, would still bear a tariff impact on these types of goods, all of which were previously tariff-free under NAFTA when imported from the U.S.

RCC notes that only 14 of the 52 HS Code categories in Figure 1 are free of tariffs irrespective of their country of origin. In the limited time available, RCC has not yet been able to look at global sources for each of the 52 categories to determine whether plausible alternative suppliers are able to export to Canada on a tariff-free basis. But a case in point would be category 940161 *Other seats, with wooden frames: Upholstered*. Canada imported \$1,030.7 million in this category in 2017, of which \$327.1 million came from the United States. The largest supplier was China at \$518.5 million and the third largest was Vietnam at \$64.2 million. Together, these three countries accounted for 88% of imports in category 940161. The problem is that both China and Vietnam face an MFN Tariff of 9.5% on furniture, so there is no relief found in shifting product orders away from a 10% tariff on U.S. imports toward a 9.5% tariff on Chinese or Vietnamese imports. While the Canadian furniture industry might be able to meet some of the need, increased demand and the lack of competing tariff-free alternatives is apt to lead to price increases from Canadian sources.

Furniture and bedding will not be the only "out of the frying pan and into the fire" cases.

RECOMMENDATION: *RCC proposes that the Government of Canada conduct an analysis of which MFN or preferential tariffs are applicable to alternative sources of supply prior to the inclusion of any category on the final list and in each case, make public its assumptions about specific alternative sources of supply, whether domestic or foreign.*



Figure 1: Retail and Consumer Goods Values

HS Code	Retail/Consumer Goods	World Imports 2017*	US Imports 2017*	US Imports as a % of World Imports	MFN Tariff
403.10	Yogurt	\$ 3,480,096	\$ 3,422,484	98.3%	0%
901.21	Coffee, roasted: Not decaffeinated	\$ 700,805,081	\$ 525,472,915	75.0%	0%
1602.32.11	Prepared meals: Of spent fowl; Specially defined mixtures	\$ 207,717,218	\$ 159,810,829	76.9%	11%
1602.50.10	Prepared meals, of bovine	\$ 231,851,315	\$ 212,996,681	91.9%	11%
1702.20	Maple sugar and maple syrup	\$ 17,078,040	\$ 16,883,786	98.9%	0%
1704.90.90	Other sugar confectionery (including white chocolate), not containing cocoa.	\$ 550,234,134	\$ 360,139,716	65.5%	9.5%
1806.31	Other chocolate, in blocks, slabs or bars: Filled	\$ 145,180,902	\$ 86,991,958	59.9%	6%
1806.32	Other chocolate, in blocks, slabs or bars: Not filled	\$ 164,782,826	\$ 72,697,018	44.1%	6%
1905.90.51	Pizza and quiche	\$ 1,445,497,596	\$ 1,241,637,662	85.9%	15%
2001.10	Cucumbers and gherkins	\$ 86,520,114	\$ 68,804,624	79.5%	8%
2007.99.10	Jams, fruit jellies, marmalades, fruit or nut purée and pastes	\$ 113,128,935	\$ 74,497,637	65.9%	12.5%
2009.12	Orange juice: Not frozen, of a Brix value not exceeding 20	\$ 246,374,807	\$ 165,236,958	67.1%	0%
2103.10	Soya sauce	\$ 47,242,552	\$ 31,967,225	67.7%	9.5%
2103.20	Tomato ketchup and other tomato sauces	\$ 274,456,110	\$ 263,819,293	96.1%	12.5%
2103.30.20	Prepared mustard	\$ 36,158,080	\$ 24,669,797	68.2%	9.5%
2103.90	Mayonnaise, salad dressing, mixed condiments and mixed seasonings, other sauces	\$ 636,827,992	\$ 521,936,743	82.0%	11%
2104.10	Soups and broths and preparations therefor	\$ 263,891,785	\$ 204,053,933	77.3%	6%
2202.10	Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured	\$ 392,328,218	\$ 253,161,412	64.5%	11%
2208.30	Whiskies	\$ 272,285,236	\$ 61,872,277	22.7%	0%
3304.30	Manicure or pedicure preparations	\$ 94,524,317	\$ 72,548,010	76.8%	6.5%
3305.30	Hair lacquers	\$ 48,758,667	\$ 43,454,067	89.1%	6.5%
3307.10	Pre-shave, shaving or after-shave preparations	\$ 45,610,186	\$ 36,623,240	80.3%	6.5%



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3307.49	Preparations for perfuming or deodorizing rooms, including odoriferous preparations used during religious rites	\$ 138,986,820	\$ 99,234,864	71.4%	6.5%
3401.30	Organic surface-active products and preparations for washing the skin, in the form of liquid or cream and put up for retail sale, whether or not containing soap	\$ 269,940,162	\$ 227,997,356	84.5%	6.5%
3402.20.10	Automatic dishwasher detergents	\$ 1,085,838,685	\$ 1,041,990,721	96.0%	5.5%
3406.00.90	Other candles and tapers and the like not including those for birthdays, Christmas or other festive occasions	\$ 131,745,646	\$ 88,894,096	67.5%	6.5%
3506.10	Products suitable for use as glues or adhesives, put up for retail sale as glues or adhesives, not exceeding a net weight of 1 kg	\$ 82,479,585	\$ 61,480,808	74.5%	6.5%
3923.21.90	Other sacks and bags (including cones) of polymers of ethylene	\$ 627,352,902	\$ 387,848,079	61.8%	6.5%
3923.29.90	Other sacks and bags (including cones) of other plastics	\$ 124,097,049	\$ 65,765,735	53.0%	6.5%
3924.10	Tableware and kitchenware	\$ 539,201,316	\$ 212,240,093	39.4%	6.5%
3924.90	Household articles and hygienic or toilet articles, of plastics	\$ 410,517,310	\$ 130,647,855	31.8%	6.5%
4818.10	Toilet paper	\$ 219,315,556	\$ 213,774,009	97.5%	0%
4818.20	Handkerchiefs, cleansing or facial tissues and towels	\$ 475,069,913	\$ 456,175,260	96.0%	0%
4818.30	Tablecloths and serviettes	\$ 93,912,970	\$ 75,663,374	80.6%	0%
4909	Printed or illustrated postcards; printed cards bearing personal greetings, messages or announcements, whether or not illustrated, with or without envelopes or trimmings.	\$ 162,994,220	\$ 67,757,133	41.6%	0%
7321.90	Parts of iron or steel, of stoves, ranges, grates, cookers (including those with subsidiary boilers for central heating), barbecues, braziers, gas-rings, plate warmers and similar non-electric domestic appliances	\$ 86,645,056	\$ 23,824,087	27.5%	0%



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76.07	Aluminum foil (whether or not printed or backed with paper, paperboard, plastics or similar backing materials) of a thickness (excluding any backing) not exceeding 0.2 mm	\$ 285,203,405	\$ 128,266,754	45.0%	0%
76.15	Table, kitchen or other household articles and parts thereof, of aluminum; pot scourers and scouring or polishing pads, gloves and the like, of aluminum; sanitary ware and parts thereof, of aluminum	\$ 226,394,363	\$ 54,176,688	23.9%	0%
8418.10	Combined refrigerator-freezers, fitted with separate external doors	\$ 429,223,805	\$ 125,395,208	29.2%	8%
8422.11.90	Dish washing machines, of the household type, other than counter-top electric or portable (of a width not exceeding 46cm)	\$ 294,903,982	\$ 172,942,235	58.6%	8%
8433.11	Mowers for lawns, parks or sports-grounds: Powered, with the cutting device rotating in a horizontal plane	\$ 370,076,932	\$ 301,021,352	81.3%	0%
8450.11	Household or laundry-type washing machines, each of a dry linen capacity not exceeding 10 kg: Fully-automatic machines	\$ 86,691,735	\$ 34,718,273	40.0%	8%
8450.20	Household or laundry-type washing machines, each of a dry linen capacity exceeding 10 kg	\$ 389,430,218	\$ 157,757,278	40.5%	0%
8903.99.90	Outboard motorboats, other vessels for pleasure or sports	\$ 267,735,481	\$ 253,025,009	94.5%	9.5%
9401.61	Other seats, with wooden frames: Upholstered	\$ 1,030,725,115	\$ 518,481,937	50.3%	9.5%
9404.21	Mattresses of cellular rubber or plastics, whether or not covered	\$ 142,117,306	\$ 76,140,906	53.6%	9.5%
9404.29	Mattresses of other materials	\$ 91,932,719	\$ 44,420,300	48.3%	9.5%
9404.30	Sleeping bags	\$ 26,963,418	\$ 873,179	3.2%	15.5%
9404.90	Other bedding and similar articles	\$ 451,372,097	\$ 129,485,808	28.7%	14%
9504.4	Playing cards	\$ 89,821,100	\$ 72,511,533	80.7%	0%
9608.1	Ball point pens	\$ 83,870,525	\$ 3,483,591	4.2%	7%
9608.2	Felt tipped and other porous-tipped pens and markers	\$ 87,770,459	\$ 32,730,855	37.3%	7%
Total		\$14,827,064,057	\$ 9,761,422,641		

Source: Canadian International Merchandise Trade Database, Annual Data, 2017

*Data for HS Codes 3401.3, 3402.20.10, 3406.00.90, 3506.1 are annual values for 2016, as the CIMP does not contain annual values for 2017



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Particular Challenges

Subject to the more general point made earlier that retailers and consumers should not bear an inequitable share of the impact of retaliatory tariffs relative to other Canadian industries, there are several specific areas of concern highlighted by our members.

High Value Consumer Goods

The first of these are **major household appliances**, of which refrigerator-freezers, dishwashers and washing machines (841810, 84221190, 845011 and 845020) have been included on the potential target list in Table 2. RCC is concerned about these categories for several reasons. These are “big ticket” goods on which a 10% tariff could approach or exceed \$100 per unit, potentially deterring purchases altogether. Insofar, as major appliances are often bought together for new homes or renovations, the one-time hit to individual consumers and families could be quite substantial, more so than on other products listed in Table 2.

Second, these are typically low-margin goods with a high wholesale cost (80% cost-of-goods in many cases), so the 10% tariff would represent a proportionately larger share of the retail price than on many of the other categories identified in Table 2. Third, there are no domestic source of supply, so unlike most of the other goods on Table 2, retailers would be wholly dependent on sources in Mexico and Asia. And as noted in Figure 1, the primary Asian sources are subject to 8% MFN tariffs on fridges and washing machines. All use inputs of steel and aluminum, which may be affected by tariffs on those commodities and lead to a compounding effect. Lastly, with the only plausible source of tariff-free supply being Mexico, one might expect price increases from that source. In relation to major appliances, we also have some concern as to the imposition of a tariff on **appliance parts** under subcategories 7321902900 and 8537103991, as imposing a tariff to keep operating existing household appliances penalises consumers on decisions already made.

While there are no MFN tariffs on **lawnmowers** in category 843311, the United States currently supplies 81% of the value of imports to Canada and there are no domestic sources of supply. China provides 11% of the imports currently and Mexico a mere 7%. Generating a source of acceptable substitutes in a reasonable timeframe is therefore a major challenge in this category.

Sprung or stuffed **mattresses and bedding** (940429 and 940490) are also of serious concern, despite the potential availability of domestic supply. Canada imported \$543 million in these two categories in 2017, of which \$174 million came from the United States. The largest supplier was China at \$292 million. China is a plausible source of alternative supply but faces MFN tariffs of 9.5% on mattresses and 14% on bedding. If retailers are effectively limited to Canada and to a much smaller degree Mexico for substitutable, tariff-free products, we can expect to see price inflation on mattresses and bedding from those sources.

We have highlighted the challenges on category 940161 *Other seats, with wooden frames: Upholstered* in the Substitutability Challenges section above.



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Grocery and Household Goods

As noted above, RCC understands the Government's decision to depart from the 2013 COOL list inclusions of fresh fruit and vegetable produce and meats and focus instead on processed foods. As the government is aware, many types of fresh produce may be hard or impossible to source from markets other than the United States and there would be a negative impact on choices for consumers that are being promoted in the *Canada Food Guide*. RCC expects the Government to keep these considerations in mind if the current trade dispute worsens and further measures are required.

There are nevertheless several areas of concern on Table 2 within groceries and household goods. In some cases, these concerns are at the 10-digit sub-category level, rather than at the 4-, 6- or 8-digit level identified in Table 2.

Coffee, identified under *090121 Coffee, roasted: not decaffeinated* is a major concern for retailers. While there are quite a few choices for Canadian, Swiss or Italian suppliers who produce coffee, this commodity is heavily brand-specific for many consumers. Most coffee drinkers rely on the same brand they have become accustomed to and will not shop for any other brands. Forcing these consumers to pay a higher premium for their favourite brand is a far more likely outcome than substitution, unlike say, soya sauce, or maple syrup. Some of these coffee brands do not have facilities to produce in Canada and have not yet made plans to move production to Canada or to another country besides the U.S. In addition, some vendors have indicated that plans to move production would take well over 8 months, as there is a limited supply of processing facilities in Canada that can produce ground coffee, as well as K-cup varieties.

Table 2 identifies *39232190, Other sacks and bags (including cones) of polymers of ethylene*. RCC has concerns about the sub-category, *3923219020 Grocery sacks and bags*, as tariffs on these goods could have negative impacts on Canadian exports and the environment due to the integrated nature of this industry across the Canadian border. Many American producers of plastic **grocery bags** do so using a closed-loop recycling program. When the American suppliers ship grocery bags across the border to Canadian retailers they have agreements to purchase the retailer's in-store pallet stretch wrap and other film and sheet plastic material; as well as consumer plastic bags, sacks and wraps that are returned to instore recycling programs. These companies concurrently own recycling facilities that recover the material in the United States and use it to make new bags. The bags made out of this material are then shipped back to Canada containing 30-50% recycled content and significantly reduce Canadian consumption of virgin plastics. The tariffs on the bag segment would disrupt this closed-loop recycling system. This type of closed loop recycling system doesn't exist within Canada. These cross-border recycling programs divert plastic material which would otherwise have become landfill in Canada.

The **pet care** industry has identified issues in two residual sub-categories of HS Code 3924: tableware and kitchenware (392410); and household articles and hygienic or toilet articles, of plastics (392490). The products affected are plastic pet treat jars and food storage bins within 3924100092 and pet gates, toys, dog houses and aquarium accessories within 3924900099. There is limited domestic production of these goods on the scale required by the industry. The plausible alternative source of supply is China



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but these products would then face an MFN tariff of 6.5%. RCC recognizes the challenges of exempting residual sub-categories but believes that a carve-out should be achievable.

There are several remaining grocery categories which, while intuitively substitutable, are faced with supply problems. One of our major retailers has noted an absence of substitutes for 16025099 (**SPAM** to be precise) and surprisingly, that there is no domestic supplier of **mayonnaise** 210399 of any scale.

In addition, while domestic producers exist, retailers are concerned that there may be capacity problems on three other grocery categories: 16025010 – **prepared meals, of bovine**; 20079990 – **jams and jellies**; and despite Canada's position as the leading source of mustard seed, 21033020 – **prepared mustard**. **RECOMMENDATION: RCC requests that the Government of Canada examine consumption data and Canadian production capacity on these items prior to formulating its final list.**

We have raised the issues with **copier and printer paper** (480256) in the Substitutability Challenges section above.

Conclusion

RCC has highlighted several category-specific concerns that need to be taken into consideration before the Canadian Government's retaliatory list is finalized. These are in addition to our overall concern that retailers and consumers not bear a disproportionate share of the burden of Canadian actions contra the U.S. tariffs on steel and aluminum. We have also covered some of the challenges to presumptions of substitutability, among them vendor supply capacity, turnaround time, uncertainty, competing MFN tariff problems and operational issues and the particular issues faced by retailers who offer private label or bulk products. RCC expects to see a well-reasoned basis and estimated cost impact for each category included on the final list, including assumptions about alternative sources of supply. Ideally, discussions around these matters can take place in the week of June 18, 2018 so that further feedback can be provided ahead of the implementation date of July 1, 2018.

All of which is respectfully submitted,

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About Retail Council of Canada

Retail is Canada's largest employer with over 2.1 million Canadians working in our industry. The sector annually generates over \$76 billion in wages and employee benefits. Core retail sales (excluding vehicles and gasoline) were \$369 billion in 2017. Retail Council of Canada (RCC) members represent more than two-thirds of core retail sales in the country. RCC is a not-for-profit industry-funded association that represents small, medium and large retail businesses in every community across the country. As the Voice of Retail™ in Canada, we proudly represent more than 45,000 storefronts in all retail formats, including department, grocery, specialty, discount, independent retailers and online merchants.

RCC grocery members represent over 95% of the market in Canada. They provide essential services and are an important source of employment in large and small communities across the country. They have strong private label programs and sell products in every food category.