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Support for Retailers

2022 Federal Budget Submission:
Supporting Retailers in Canada

Developed by

RCC RETAIL COUNCIL OF CANADA CCCD CONSEIL CANADIEN DU COMMERCE DE DÉTAIL

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Retail Council of Canada

Retail Council of Canada (RCC) is a not-for-profit, industry-funded association. RCC has been *The Voice of Retail*™ in Canada since 1963. We represent over 45,000 online and brick-and-mortar storefronts in general merchandise, pharmacy, and grocery. Our mission is to advance the interests of the retail industry through effective advocacy, communications, and education.

1. Retail's Role in Canada's Economy

Retail is Canada's largest private-sector employer and holds a critical role in our economy. Although we have weathered numerous supply chain disruptions over the last year, retailers have gone to great lengths to ensure that store shelves remained stocked, and consumers could access the items they need every day.

We are also seeing signs of economic recovery in our sector, but things remain fragile, with inflation rates the highest they've been in over 30 years, the recurring threat of new COVID variants, leading to changes in work and spending patterns, and the recent instability arising from blockades and occupations of border points and urban centres.

Despite all of this, retailers across Canada are continually shifting their operations to meet ever-changing consumer demands, moving forward with commitments made to lower their carbon footprint, all while keeping prices as competitive as possible.

The government has a role in assisting retailers during this time of uncertainty and in providing the necessary conditions required to recover and then to bounce back stronger than before.

As *The Voice of Retail*™, Retail Council of Canada recommends the following initiatives be prioritized and adopted in the government's 2022 Budget:

I. Eliminate Tariffs on Essential Items
II. Reduce Credit Card "Swipe Fees"
III. Reduce Import Costs for Furniture
IV. Strengthen Canada Post's Package Delivery System
V. Help Retailers Lower their Carbon Footprint
VI. Introduce a New Visitor Rebate Program

As we all work through the long-term impacts brought on by COVID-19, the key measures outlined here will help ensure the recovery of Canada's retail industry, boosting Canada's economic growth and making life more affordable for Canadian families.

2. Retail Priorities for Economic Recovery

2.1 Eliminate Tariffs on Essential Items

- Eliminate tariffs on essential items Canadians use every day, such as clothing, shoes, and baby items.

Canadians are paying up to 10% extra on certain essential items.

Canadians pay around $5 billion in hidden taxes on essential items each year, unnecessarily adding to their cost of living. Among the worst offenders of these embedded taxes are tariffs on apparel and shoes - in some cases as high as 20% - resulting in a cost of $2 billion annually to Canadians. This means that when Canadians purchase a $100 pair of shoes or boots, they are often paying $16 more than if there was no tariff. The situation for apparel is similar.

Essential baby items such as car seats, diapers, bottles, strollers, and furniture are also all subject to tariffs between 6% and 18%, adding to the overall cost of starting a family.

Understandably, tariffs were used in the past as a method for protecting our domestic industries from out-of-country competition. However, today, very few textile and clothing products used by Canadians are manufactured domestically. Since these tariffs are remnants of an outdated system that was designed to protect an industry that has moved offshore, they now act only as a hidden tax on consumers and unnecessarily inflate prices.

As Canadians deal with the long-term impact of the COVID-19 pandemic and the cost of living increasing dramatically due to inflation, the government must permanently eliminate tariffs on essential items such as clothing, shoes, and baby items. This measure will help lower the cost of living and will help every Canadian now and into the future.

2.2 Reduce Credit Card "Swipe Fees"

- As more Canadians opt for credit card payment methods, Canada must lower its interchange fees to align with other international jurisdictions to support small businesses in Canada.
- Lower the fees charged for online transactions, which are currently treated as "card not present."

Canadians pay some of the highest "swipe fees" in the world.

It should come as no surprise that shopping online, which was already on the rise, dramatically spiked at the peak of the pandemic and continues now. Although brick-and-mortar stores have mostly reopened, the increase of online shopping, curbside pick-up, and touchless payment will continue to grow as Canada's retail sector continues to evolve.

In an online or contactless environment, cash use is largely eliminated. Credit cards are better set up for online use than are debit cards and have the advantage of a higher "tap" limit than debit ($250 v. $100).

Consequently, this increase in credit card use has increased payment acceptance costs for retailers and consumers. Approximately 1.4% of Canadian credit card spending goes directly to the big credit card companies and their issuing banks, drastically reducing a retailer's profit margin and driving up prices for Canadian Consumers. This is especially true for small business owners who pay a high fee each time a customer uses his or her credit card.

This situation is even worse for online payments, or "*card not present*" payments, where the credit card companies charge an additional fee.

These fees only add to the rising costs of doing business and consequently higher costs for consumers. And with inflation rates the highest they have been in over 30 years, the impacts are even further multiplied.

Despite some modest reductions over the past 5 years, Canadians still pay among the highest swipe fees in the world. Worldwide, 37 countries have recognized the uncompetitive level of interchange fees and have moved to reduce and cap them. For example, France limits interchange to 0.28%, the EU long-since moved to a 0.30% cap across the board, and Australia limits interchange to an average of 0.50%.

Canada needs to follow suit and help all small businesses by lowering Canada's permissible interchange fees.

2.3 Reduce Import Costs for Furniture

- Remove the recently imposed tariffs on furniture imports to help small and mid-sized Canadian retailers and lower the cost for Canadians.

Help keep furniture prices affordable for Canadians.

Since the new tariffs on furniture from China and Vietnam were introduced, domestic manufacturers have not been able to supply retailers with the increased demand for furniture in Canada. Not only have retailers faced additional costs in transportation and logistics due to supply chain issues, but they are now also faced with higher importing costs which results in higher prices and reduced product choices for Canadian consumers. This is in addition to the highest inflationary prices Canadians have seen in over 30 years.

To help ease the burden on Canadian retailers and help lower the prices for Canadians, RCC is asking that the government reconsider the Canadian International Trade Tribunal decision and remove these duties.

These tariffs have and will continue to make it difficult, if not impossible, for retailers, especially small and mid-sized family businesses, to import the affected products to meet the demands of their customers and have limited retailers' ability to survive and grow in these unprecedented times.

2.4 Strengthen Canada Post's Package Delivery System

- Make investments into Canada Post's Package delivery system and network to help retailers meet the growing demands of online shopping.

Canadians need a reliable and affordable package delivery provider.

As online shopping continues to expand and grow in Canada, retailers need a reliable and affordable delivery partner. For many retailers, this partner is Canada Post, but it remains well behind competitors to handle the increase of volume brought on by this growing demand.

Retailers in Canada - particularly SMEs – need a stronger, more reliable delivery system from Canada Post to deliver goods and packages to consumers. However, many retailers have been forced to expand the delivery partners they rely on, albeit at a higher rate, increasing costs to both consumers and businesses.

Furthermore, some independent main street retailers have faced difficulties even finding packaging companies willing to work with them, further adding to the difficulties.

Investing in Canada's primary postal service and giving them the resources needed to meet the growing demand for online delivery in Canada will help all retailers thrive.

2.5 Help Retailers Lower their Carbon Footprint

- To help shift to greener retail operations, the government must offer different rebates, tax credits or other incentives related to these needed upgrades.
- Support retailers' shift away from single-use plastics, secure the supply of environmentally friendly alternatives, and incorporate recycled content in products and packaging.

Partner with retailers to lower our carbon footprint and move away from single-use plastics.

The capital costs of meeting the Paris Agreement for retailers will be significant and will require substantial investments to continue the work already underway. Retailers across Canada have made firm commitments to lower their carbon footprint and have started to make investments in low carbon or electric fleets, updating HVAC systems, lighting systems, and hot waters systems to be more energy-efficient, and are moving from conventional electric power to green power.

However, to ensure retailers can meet these important commitments while keeping prices competitive for Canadians, the government must partner with the sector by offering rebates, tax credits, or other incentives related to these costly upgrades. Moreover, offering federal grants for the development of tools, guidance, and cross-sectoral collaborations to drive education and action will help reduce both the retail sector's direct greenhouse gas emissions and those of their supply chain.

Further to the commitments to lower emissions, retailers supported the government's decision to eliminate problematic single-use plastics. However, to help with this transition, a detailed study around supply alternatives is needed to ensure minimal disruptions. This analysis is imperative to understand whether the proposed timeframes for ban implementations are adequate. Particularly given recent levels of inflation, a poorly timed regulatory implementation could further drive costs higher for businesses and consumers. Further study is also required around recycled content quality standards, which should be released in cohesion with the draft regulation on recycled content minimum requirements.

It is also imperative that government develop and implement complementing policies and programs that drive innovation in product and in packaging design as well as processing and recycling technologies that drive a circular economy. This may include programs that provide financing, grants, and investment to enable research, development, and innovation around further developing a sustainable, circular economy in Canada. We believe these programs can further support the successful implementation of forthcoming regulations such as single-use plastics bans and recycled content minimum requirements to achieve Canada's zero plastic waste goal by 2030.

2.6 Introduce a New Visitor Rebate Program

- Introduce a new visitor rebate program in Canada, giving tourists a tax rebate on the goods they buy, boosting visitor spending and helping retailers and the broader tourism industry.

Help rebuild Canada's tourism sector once border restrictions ease.

The tourism sector in Canada has been hit hard throughout the pandemic. In a pre-COVID environment, the tourism sector was valued at around 2% of GDP, with three-quarters of a million Canadian jobs being generated by tourism. However, due to the pandemic, those numbers have plummeted over the last 2 years.

These declines are impacting many industries, including retail, which have been adversely affected by this collapse. This has only exacerbated an ongoing decline in per capita tourist spending that has been in evidence since the previous visitors' rebate program was cancelled by the government of Canada in 2007. Measured by spend-per-tourist, the industry has seen a decline of 5% over the past seven years. This is in marked contrast to other competing jurisdictions, like Japan, which has seen an increase of over 23% in tourist spending per capita since they launched a new visitor rebate program in 2012. Or the Bahamas who have seen an increase of over 19% since they launched a visitor rebate program in 2017 (both pre-pandemic).

RCC believes every reasonable and cost-effective lever should be used to lift the tourism sector out of its current circumstance and renew its important contribution to the Canadian economy, including the introduction of a new visitor rebate program.

As retailers in Canada look forward to welcoming tourists to their stores again, they will need every opportunity they can get to bounce back after suffering the losses they've endured, especially those who rely on tourist spending. Although we won't see a jump of visitors to Canada in the short term, introducing a new Visitor Rebate Program in Canada would be a much-needed boost for retailers and other industries who've been devastated by the pandemic in the long run.