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Retail Economic Recovery Plan



Economic Recovery Plan: *Supporting Retailers Through the Pandemic and its Aftermath*

Developed by

RCC RETAIL
COUNCIL
OF CANADA

CCCD CONSEIL CANADIEN
DU COMMERCE
DE DÉTAIL

1. List of Recommendations

1. Introduce tax credits for enhanced safety measures
2. Eliminate tariffs on essential items
3. Support consistent and accurate health messaging for consumers
4. Reduce credit card 'swipe fees'
5. Introduce a new Visitor Rebate Program

2. Executive Summary

Retail is Canada's largest private-sector employer and holds a critical role in our economy. Although there are signs of hope as the economy slowly reopens, the road to recovery for retailers will be fragile and the support of government will be essential. Government must assist retailers during this time and provide the necessary conditions required to adjust to the new reality and bounce back stronger than before.

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

- 1. Introduce tax credits for enhanced safety measures**
- 2. Eliminate tariffs on essential items**
- 3. Support consistent and accurate health messaging for consumers**
- 4. Reduce credit card swipe fees**
- 5. Introduce a new Visitor Rebate Program**

As we all work through the long-term impacts brought on by COVID-19, the five key retail 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.

3. About Retail in Canada

3.1 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 from coast to coast in general merchandise, pharmacy, and grocery. Our mission is to advance the interests of the retail industry through effective advocacy, communications, and education.

3.2 Impact on Jobs

In February 2020, 2,226,000 Canadians worked in the retail industry and by May there were nearly 390,000 fewer retail jobs, a loss of 17% due to the COVID-19 crisis. Due to the ongoing pandemic and uncertain future, the road to recovery will be long and hard, and more closures and corresponding job losses in retail are likely.

Apart from being Canada's largest private-sector employer, the retail industry also has a significant impact on jobs in warehousing, transportation, IT, commercial property management, and other industries. Every retail job creates four supporting jobs in these and other sectors. The loss in retail sales compared either to before the onset of COVID-19 (February 2020) or on a year-over-year basis is unprecedented.

3.3 Impacts on Sales

Although May retail numbers reported by Statistics Canada provide some hope that consumers are returning to stores, RCC believes that recovery for most retailers will be very slow throughout the next several months.

The month-over-month increase (May compared to April 2020) of 18.7% illustrates some pent-up demand as consumers returned to stores across the country to shop for a variety of discretionary products.

On the other hand, year-over-year core retail sales decreased (May 2019 versus May 2020) by 5.5% and core retail sales excluding grocery decreased by 12%. Removing grocery, auto and gas from Statistics Canada's calculation clearly shows that recovery will continue to be slow and unpredictable for many retailers as they adjust to changing consumer habits, new restrictions in stores, and risks of further COVID outbreaks.

Although most retail subsectors were up in May, including furniture, clothing, footwear, and sporting goods, they are far from having rebounded to sales levels seen before COVID-19. This suggests that these brick-and-mortar stores are still facing greater challenges, particularly those who rely on sales from tourists or business travel as both are happening at a much lower rate.

4. Retail Priorities for Economic Recovery

4.1 Tax credits for enhanced safety measures

Introduce a refundable tax credit to help ease the financial burden of protecting consumers and retail employees from COVID-19.

Support businesses adapt to new safety protocols.

Since the beginning of the pandemic, essential retailers that remained open were some of the first businesses to implement enhanced safety procedures in their physical locations, including plexiglass dividers, PPE for employees, enhanced cleaning protocols, sanitizing stations for consumers, additional signage, health screening tools, etc. Other retailers followed suit once they were allowed to reopen, however many of the new measures adopted have come at a significant cost, hampering the recovery of the retail sector.

For these reasons, we urge government to introduce a refundable tax credit to help ease the financial burden of protecting Canadians from COVID-19. These expenditures could include PPE equipment for staff, increased safety training, and other resources to help retailers keep their employees and customers safe. By providing this relief in the form of a refundable tax credit, rather than a deduction or other form, government will ensure that much-needed relief is provided to retail businesses at the time when they need it most.

4.2 Eliminate tariffs on essential items

- Permanently eliminate tariffs on essential Personal Protective Equipment (PPE).
- Eliminate tariffs on other essential goods, such as clothing and shoes to make life more affordable for Canadian families.

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

RCC was pleased to see the government act swiftly early on in the pandemic to waive tariffs on essential PPE, keeping costs as low as possible and helping ensure there was a steady supply. As many of these items will remain essential to retail operations, the government must take steps to make this permanent.

Although there has been temporary tariff relief for PPE, Canadians are still paying around \$5 billion in these hidden taxes on other 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 \$150 pair of shoes or boots, they are often paying \$16 more than if there wasn't a tariff. The situation for apparel is similar.

Understandably, tariffs were used in the past as a method for protecting our domestic industries from out-of-country competition. However, today only 4.4% of 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 to consumers and unnecessarily inflate prices.

As Canadians deal with the long-term impact from the COVID-19 pandemic and the economy struggles to rebound, the government must permanently eliminate tariffs on essential items, starting with PPE and then including items such as clothing and shoes. Helping lower the cost for these items will help every Canadian now and into the future.

4.3 Support consistent and accurate health messaging for consumers.

With the help of RCC, implement a communications program for retailers across Canada to promote proper health measures and protocols.

Ensure health messaging Canadians see in stores is consistent and accurate.

Similar to ensuring employees and consumers are protected with PPE, reminding consumers of the important health and safety protocols while shopping is another key element in keeping the public safe. It is important to have consistent messaging and recognizable signage regardless of where a person shops to maintain a safe and courteous shopping experience. Inconsistent and scattered messaging can lead to consumer confusion and inconsistent observation of the rules.

To ensure a safe store environment while meeting public health regulations, retailers have had various degrees of success in trying to communicate these new rules to the public, due in part to a patchwork of measures across the country. To help mitigate any lapse in communication at retail stores, the government should partner with the Retail Council of Canada to support a harmonized communication approach for consumers, which could include signage, a website and/or an app. This would set consistent health and safety shopping expectations across the country to help to slow the spread of the virus and prevent a second wave, keeping consumers and employees safe.

4.4 Reduce credit card “swipe fees”.

- As more Canadians opt for touchless payment, 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. And although brick and mortar stores are slowly reopening, the increase of online shopping, curbside pick-up, and touchless payment will continue to grow as Canadians look for safe ways to shop.

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 for debit (\$250 v. \$100).

Consequently, this increase in credit card use has increased payments acceptance costs for retailers and consumers. Approximately 1.5% of Canadian credit card spending goes directly to the big credit card companies and their issuing banks, drastically reducing a retailer’s profit margin. This is especially true for small business owners who pay a 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.

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, Australia limits interchange to an average of 0.50%.

Canada needs to follow suit and help all small businesses adapt to safer methods of touchless payments by lowering Canada’s permissible interchange fees.

4.5 Introduce a new visitor rebate program

Introduce a new visitor rebate program for Canada, similar to that of Japan, allowing retailers the ability to issue tax rebates at the point of sale giving a boost to the tourism industry and retailers in Canada.

Help rebuild Canada's tourism market as border restrictions ease.

Canada is the only OECD country with a federal value-added sales tax to not provide a rebate to visitors. Since the Government decided to move away from the Visitor Rebate Program, many industries dependent on tourism and retailers in Canada have called for the reinstatement of the program, with good reason.

Before the pandemic, tourism GDP was reduced by nearly \$6 billion over the past decade as a result of the cancellation of the Visitor Rebate Program. While this policy decision was made with a goal to save money, an RCC study found that the government lost \$137.9 million a year in revenue, well above the annual administrative program costs of \$86.3 million a year. This translates into a net loss of \$51.6 million a year. Furthermore, in-trip spending fell by about \$66 a person per trip to Canada.

Japan on the other hand recently implemented a Visitor Rebate Program which allows its retailers to offer tax-free goods to visitors. This move has boosted its tourism GDP from \$14.2 billion in 2013 to nearly \$35.3 billion in 2017. As Japan slowly reopens its borders, retailers there will undoubtedly have an advantage as they come through this, incentivizing tourists to spend more money than they otherwise would.

As retailers in Canada begin to reopen they will need every opportunity to bounce back after suffering the losses they've endured, especially those who rely heavily on tourist spending. Although it will take some time to see a jump in the number of visitors to Canada, 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.