February 2020

Retail Economic Recovery Plan

2021 Budget Submission:
Supporting Retailers Through the Pandemic and its Aftermath

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 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.

1. COVID-19 Impact on Retail

As retailers in Canada look forward to reopening at full capacity, they will need every opportunity they can get to bounce back after suffering the losses they've endured.

StatsCan data shows that over the last year retailers have seen their expenses increase significantly[1]. Over 30.2% of retail businesses surveyed have reported increased expenses, with 20.1% reporting an increase of 10% or more.

Moreover, in many retail sub-sectors, profit margins are small. The average operating profit margin in Canada for retail was 4.8% in 2018[2]. In other words, business owners experiencing a 10% increase in costs are, on average, losing money.

StatCan's most recent survey on business conditions[3] illustrates a similar sentiment - that 30.4% of businesses do not know how long they could continue to operate at their current level of revenue and expenditures before considering further staffing actions, closure, or bankruptcy.

We've seen this scenario played out throughout the pandemic with Canadian retailers closing their doors for good or who are planning to. RCC is aware of some 1,826 stores in Canada that will not reopen in 2021, or many retailers who are facing significant barriers to reopening. Large Canadian retailers such as The Aldo Group, Reitman's, Dynamite/Garage, Bentley, Bouclair and many others have all filed for creditor protection. Some will continue under new ownership, like MEC, which was purchased by an American company after filing for creditor protection.

Retail is Canada's largest private-sector employer and holds a critical role in our economy. Although there are signs of recovery, the road to get there for retailers will be fragile and the support of government will be essential. Government must assist retailers during this time of uncertainty and provide the necessary conditions required 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 economic recovery plan:

1. Tax Credits for Enhanced Safety Measures
2. Eliminate Tariffs on Essential Items
3. Introduce a New Eco-Retrofit Tax Credit
4. Reduce Credit Card "Swipe Fees"
5. Introduce a New Visitor Rebate Program
6. Support the Move to Online Shopping
7. Improve Aspects of the Canadian Emergency Wage Subsidy Program (CEWS)
8. Expand the Eligibility Criteria for the Highly Affected Sectors Capital Availability Program (HASCAP)
9. Revamp the Canadian Emergency Rent Subsidy Program (CERS)

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.

[1] Statistics Canada. Table 33-10-0254-01 Business expenses from April 2020 compared with April 2019, by business characteristics (click for link)
[2] Statistics Canada. Table 20-10-0066-01 Annual retail trade survey, financial estimates (click for link)
[3] Statistics Canada. The Daily. Canadian Survey on Business Conditions from 2020-11-13 (click for link)

2. Current Retail Statistics

513,527 Grocery (-1.4%)

7,572 Canadians lost grocery retail jobs since the start of COVID-19

206,831 Vehicle & Parts jobs (-8.0%)

17,912 Canadians lost vehicle & parts retail jobs since the start of COVID-19

188,279 Apparel jobs (-16.6%)

37,384 Canadians lost clothing retail jobs since the start of COVID-19

68,541 Furniture jobs (-6.1%)

4,474 Canadians lost furniture retail jobs since the start of COVID-19

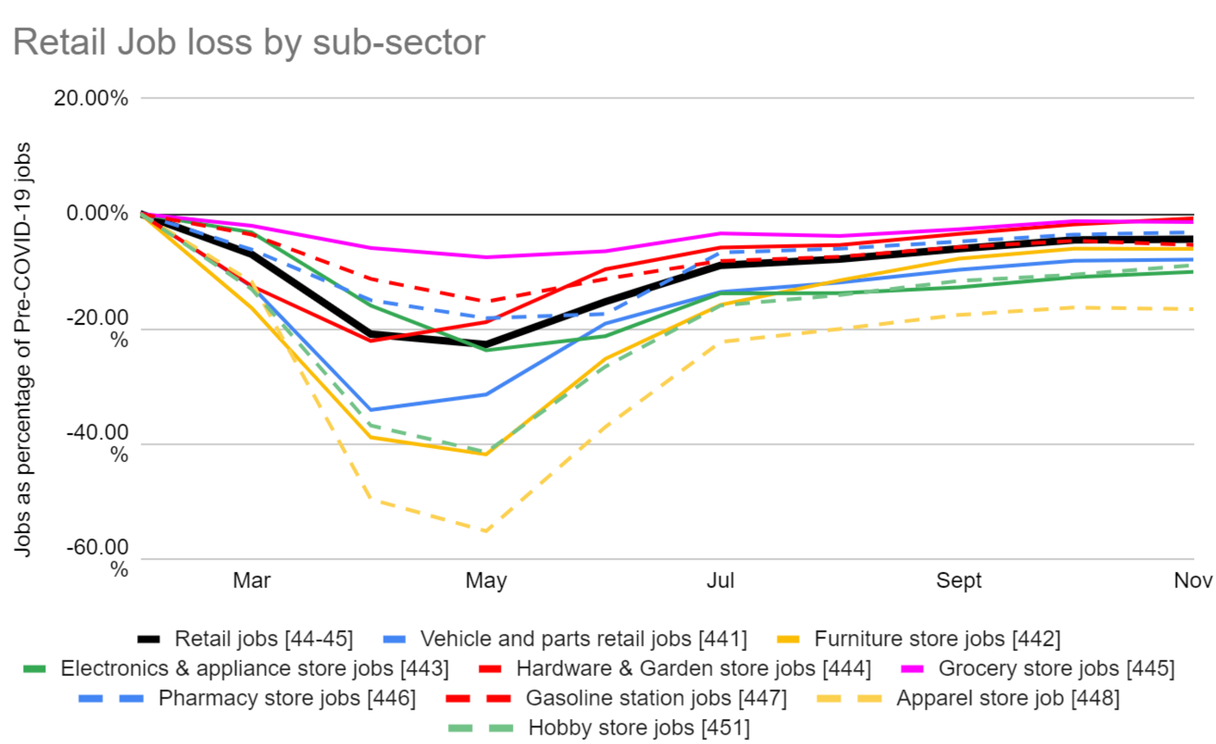
46,486 Electronics jobs (-10.1%)

5,211 Canadians lost electronics retail jobs since the start of COVID-19

75,941 Hobby jobs (-8.9%)

7,457 Canadians lost hobby retail jobs since the start of COVID-19

Source: Table 14-10-0220-01 Employment and average weekly earnings (including overtime) for all employees by industry, monthly, seasonally adjusted, Canada



3. Retail Priorities for Economic Recovery

3.1 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.

Reduce ongoing costs associated with COVID-19 to keep customers and employees safe.

Since the beginning of the pandemic, retailers 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.

While some of these PPE enhancements were one-time costs, most are ongoing expenses for businesses to ensure customer and employee safety. Operational costs from enhanced store sanitation, masks for customers and staff, hand sanitizer, and staff training have placed a strain on local businesses.

We urge the 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.

3.2 Eliminate Tariffs on Essential Items

- Permanently eliminate tariffs on essential Personal Protective Equipment (PPE).
- Eliminate tariffs on other essential items Canadians use every day, such as clothing, shoes, and baby items.

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.

Likewise, essential baby items such as car seats, diapers, bottles, strollers, and furniture are 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 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 of 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, shoes, and baby items. Helping lower the cost for these items will help every Canadian now and into the future.

3.3 Introduce a New Eco-Retrofit Tax Credit

Help Canadians retrofit their homes to be more energy efficient by establishing an Eco-Retrofit Tax Credit.

Reduce carbon emissions by incentivizing Canadians to make energy-efficient upgrades.

After the 2008 recession, to help reboot the economy, the government implemented a Home Renovation Tax Credit (HRTC), which was hugely successful. The program offered a temporary 15% tax credit for eligible home renovation expenditures. In a review of the tax credit program, TD Economics concluded that “along with record low interest rates, the [tax] credit worked. It helped boost renovation spending by an estimated $3-4 billion.” The review went further stating that renovation spending was the only major component of GDP that grew in 2009 and credited the HRTC[4].

A decade later, due to the pandemic, Canada’s economy requires help again. This coupled with the need to address Canada’s climate change objectives, now is the time to introduce a new Eco-Retrofit Tax Credit based on the success of HRTC.

Offering Canadians an incentive to shift to energy-efficient options and to invest in other carbon emission reductions for their homes, would not only benefit our common goal of protecting our environment but would boost economic activity, supporting retailers and other home improvement industries.

[4] https://www.td.com/document/PDF/economics/special/CanadianRenovationSpending.pdf

3.4 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 payment 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.

3.5 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 is in dire shape – the worst in its history, with international borders being effectively closed and domestic tourism being severely constrained by the impact of COVID-19. 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 year.

These declines are impacting many industries, including retail, which have been adversely affected by this collapse. Although, 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 spend 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.

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 reopening 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.

3.6 Support the Move to Online Shopping

Introduce new supports to help brick-and-mortar retail shift operations online by reducing the increased costs of direct-to-consumer delivery.

Support traditional brick-and-mortar retailers deliver products purchased online.

With store closures and a shift in consumer preference towards contactless shopping for health and safety reasons, the pandemic has forced many retailers to modify their operations to incorporate alternative models, including online shopping or curbside pick-up. While it is estimated that online retail sales accounted for approximately 5% of total core retail sales pre-pandemic, it is now projected that online sales in Canada will represent close to 15% of core retail sales (excluding entities such as Wayfair and Amazon).

This shift has come at a significant cost for traditional brick-and-mortar retailers, as they have needed to upgrade to new digital platforms, readapt their supply chains, and quickly pivot to new delivery methods. Part of this change has meant an increased reliance on third-party delivery companies, like Canada Post, FedEx, and UPS, among others. The costs associated with internalizing delivery, while maintaining the carrying cost of brick-and-mortar store locations and store staff has escalated the cost for retailers, both large and small, significantly.

Therefore, RCC recommends the government introduce a new tax credit to support retailers with store locations in Canada adapt their operations to incorporate new delivery methods, such as online shopping and curbside pick-up, to help mitigate cost escalation.

RCC believes that a tax credit aimed at lowering the costs for delivery has the dual benefit of reducing the extra costs incurred by retailers and ultimately reducing the cost for consumers, as retailers will be incentivized to absorb the cost of delivery (e.g., offer free delivery instead of “spend over $50 for free delivery”).

3.7 Improve Aspects of the Canadian Emergency Wage Subsidy Program (CEWS)

Implement top-up assistance for wages in provinces that have been locked down or that might be locked down in future.

Help retailers keep staff on payroll by improving parameters within CEWS.

The CEWS program was welcomed relief for many businesses in Canada, including many retailers, who relied on the subsidy to keep afloat. However, retailers have not been able to fully utilize the program, hence the significant job losses in Canada's retail sector. The way the program is currently set-up, CEWS only considers comparative year-over-year national revenue levels and not at provincial revenue levels. Thus, the program fails to maintain its intended connection to the prevention of job losses.

For retailers who have been locked down for two or three months, the decision to keep workers on payroll is closely correlated to the availability of work in each region, which is why Ontario and Quebec saw 160,000 retail jobs lost in January when brick-and-mortar stores were closed and there was not enough work to go around.

Therefore, RCC recommends the government implement top-up assistance – similar to that of the Canadian Emergency Rent Subsidy – for wages in provinces that have been locked-down (ON, QC and MB) or that might be locked-down in the future. For instance, CEWS could offer a top-up of 25%, prorated to the number of days in a claim period that a province (or region) was in lockdown.

And although lockdowns seem to be ending (for now) the claims for these periods have yet to be made for some of those months. Furthermore, employees in these regions have yet to be rehired which likely could be significantly delayed given the deterioration in the financial position of a lot of retailers.

3.8 Expand the Eligibility Criteria for the Highly Affected Sectors Capital Availability Program (HASCAP)

Expand HASCAP's eligibility requirements for businesses who have had a 50% revenue decline for 3 months since the beginning of the pandemic.

Support retailers across Canada who have experienced significant revenue declines by expanding HASCAP.

In concept, HASCAP is a useful tool to help hard-hit companies dig their way out of financial trouble over an extended period and could benefit some retailers. However, because of the limiting design parameters most struggling retailers in Canada who could benefit from the program will be excluded.

Currently, HASCAP requires that a business show at least a 50% revenue decline in each of three distinct months within the preceding eight months. The issue retailers are facing, is that while many will have had more than 50% revenue decline three or four months since the beginning of the pandemic, relatively few will have had three such months within the last eight months, mainly because many were able to reopen in the summer and most of the fall.

The lockdown in the GTA, which started in late November and is scheduled to end in late-February, might qualify some – but other retailers who were locked down in other parts of Ontario, Quebec, and Manitoba will be just shy of meeting the program eligibility requirements. And retailers in the rest of the country who also suffered significant revenue drops in the spring and early summer of 2020 are also ineligible because those months fall just outside the program timelines.

Therefore, RCC recommends the government expand HASCAP's eligibility requirements to include businesses that have experienced at least a 50% revenue decline for at least 3 months since the beginning of the pandemic and the government lockdowns.

3.9 Revamp the Canadian Emergency Rent Subsidy Program

Expand the CERS program to help more businesses who need assistance paying their rent, by expanding the program cap and changing the "affiliated company" definition, to per "company".

Allow more impacted businesses receive the rent assistance they need.

Although the Canadian Emergency Rent Subsidy (CERS) program has helped many businesses weather the financial storm brought on by the pandemic, there are still numerous retailers who need assistance but are unable to access funds because of a technicality.

The CERS definition creates *have* and *have not* companies as it restricts only one "affiliated company" from applying to the program. Businesses frequently have complex ownership models, which sees some companies having some stock in others. The definition of "affiliated companies" forces companies without operating control of another company to negotiate which entity should apply for CERS. To help all businesses who need assistance with rent support, the government must move away from the "affiliated company" definition, to per "company".

Additionally, many other retail businesses who have been severely impacted by the pandemic do not qualify for assistance due to program caps. The $300,000 expense cap (not including the lockdown top-up) for all affiliated companies means roughly only about 5 to 10 retail locations can access the financial support they need.

RCC is asking the government to extend the $300,000 cap to help more impacted businesses or create a subsidy program to support those beyond the rent cap, helping for a stronger recovery.